

Imports from East Asian countries were mainly industrial manufactures such as machinery, electrical machinery and devices (including electronics), and transport equipment (including automobiles), while major exports were primary products (e.g., cereals, oilseeds, etc.), MOAs (e.g., by-products of food industries, fats and oils, leather, etc.), and MOIs (e.g., seamless pipe and unwrought aluminum).

The trade balance with East Asian countries turned from a surplus of US\$ 553 million in 1991 to a deficit of US\$ 782 million in 1992 (Table 3.4.10). Due to a remarkable increase of imports of industrial manufactures, the deficit with East Asian countries (Korea, Hong Kong, Japan, Singapore, and Taiwan in this order) represented more than one-fourth of Argentina's total deficit both in 1992 (30%) and in 1993 (26%).

3.4.1.2 Regional trade and MERCOSUR

(1) Institutional aspects of MERCOSUR

a. Common external tariffs and other issues

During 1993, common external tariff issues almost reached a conclusion. In January 1994, the declaration of Colonia accelerated the preparatory work for the formation of MERCOSUR and by June 1994, each member country had submitted a common tariff list. In October 1994, they coordinated the lists with exceptional lists for the commencement of MERCOSUR on January 1, 1995. The most disputed items were reported to be chemicals, petrochemicals, capital goods, and informative goods. Other tasks such as customs coordination and consumer protection were also in progress.

In August 1994, the Presidents of Argentina, Brazil, Paraguay, and Uruguay succeeded in building a consensus on the following issues:

- 1) Common tariffs towards the third countries (TEC)
- 2) The rules of origin
- 3) Free trade zones in the four countries
- 4) Foreign investment protection policy in the region
- 5) Export incentives in the region and others
- 6) MERCOSUR Trade Commission (MTC)

MTC was created in August 1994 by the decision of the Council of Ministers No. 9/94 in order to deal with all trade-related matters and trade relations with the third countries. MTC started working in February 1995 and formed a series of technical committees on agreement issues like common external tariffs, the rules of origin, non-tariff barriers, unfair trade practices, competition policy, etc.

In December 1994, the MERCOSUR Council of Ministers met in Ouro Preto, Brazil, and adopted a series of decisions related to the implementation of the Customs

Union beginning January 1, 1995 and different measures corresponding to the Common Trade policy. The following is a brief resume of the main results of this meeting.

1) Common External Tariff (TEC)

The tariff schedule to be applied to trade with the rest of the world comprises approximately 8,500 tariff items and became effective January 1, 1995. Tariff levels range from 0 to 20% for a number of tariff items equivalent to 85% of the total trade of the MERCOSUR countries.

There are a number of exceptions to the TEC for which each country can continue with the application of national tariff levels during 6 years. These tariff items will converge to the tariff level corresponding to the TEC by January 1, 2001.

There are also some tariff items covering a series of sensitive products of each country for which it has been authorized the application of positive tariff levels to the intra-MERCOSUR trade.

The capital goods tariff level has been established at 14% and is to be reached in the year 2001, starting from the national tariff levels corresponding to each member country of MERCOSUR. The informatics and telecommunications goods tariff level has been established at 16% to be reached in the year 2006, starting from national tariff levels existing in 1994.

- 2) The exceptional lists: The exceptional lists will be effective from January 21, 1995. The import tariffs of each country are to be applied to these items and will be decreased gradually to 0%. The numbers of exceptional items for each country are 231 for Argentina, 186 for Brazil, 212 for Uruguay, and 253 for Paraguay. Some principal product categories included in the exceptional lists are chemicals and petrochemicals, iron and steel, paper, and shoes for Argentina and chemicals and petrochemicals, foodstuffs, textile, construction materials, cleaning products and cosmetics, leather goods, and wood products for Brazil.
- 3) The common rules for automobiles: The four countries will prepare a proposal for the common rules of automobiles and parts for free trade in MERCOSUR by June 1995. The common rules will be effective at the beginning of 2000.
- 4) The rules of origin: The products under this rule are subject to 50% of added values and the percentage will be converged gradually to 60% by 2000. Specific requirements are applied to chemicals, telecommunications, some products of iron

and steel. For the informative goods, the general rule will be applied by the end of January 1995.

There is a project of an agreement on agriculture in MERCOSUR that has been discussed among the four countries. The bases of the agreement are the GATT rules as approved in the Uruguay Round. However, some differences subsist among the member countries regarding production subsidies minimum authorized level and support measures a country can apply without affecting competing production in the others.

b. MERCOSUR-related business strategies

It has been revealed that interest by Brazilian firms in MERCOSUR is growing (Bielshowsky, 1993). 35% of domestic-capital companies and 38% of multi-national companies surveyed indicated that MERCOSUR was one of the five most influential factors in making strategical decisions, exceeding the importance of unilateral trade liberalization. In addition, 41% of the companies, both domestic and multi-national, indicated MERCOSUR as one of the two most significant export markets, considering the regional market the most important for Brazilian exporters over traditional markets such as the U.S.A. and EU.

With their growing interest in the economic integration, companies in the region have been fast developing new business initiatives. Those companies set up policies regarding marketing, production, the purchase of materials, and the hiring of labor based on the new conditions provided by the expanded economic area. A larger number of MERCOSUR-related business initiatives have been taken in the last two years.

There are mainly three types of initiatives which have impacts on production: 1) agreements for productive complementation at inter- or intra-firm levels; 2) investment aimed at the expanded market; and 3) transfer of capital stocks. Initiatives implying some forms of complementary production agreement by companies operating in both countries have been predominant. Multi-national companies with subsidiaries in Argentina and Brazil, especially those operating in the motor-vehicle sector, have pioneered these activities not only through strategies for specialization by subsidiaries but also through agreements with other companies. Complementation between domestic-capital companies in both countries has been centered on the manufacturing of consumer goods and intermediate goods.

Sectors producing consumer goods are involved in a considerable number of agreements of the first kind, while the automobile and agriculture machinery industries and some sectors manufacturing input materials are operating more actively based on the

second strategy. Commercial agreements are concentrated in the consumer goods sector. There have been a large number of delivery agreements under which an Argentine company distributes the products of a Brazilian partner and/or vice-versa, using its own sales channels. Such agreements seem to be "pro-cyclical." In other words, the size and direction of trade flows that they generate are sensitive to the macro-economic configurations of respective countries, as shown in the larger trade flow from Brazil to Argentina between 1991 and 1993.

There are fewer examples of investment on new plants taking account of or associated with the creation of MERCOSUR. In addition to the initiatives taken by multinational companies, such investment can be seen mainly in the sectors of motor vehicles, metallurgy, and beverages. It is still hard to estimate the full impacts of investment of this kind on employment, production, and trade.

MERCOSUR has also had a favorable effect on sectors using agricultural resources, as seen in the production of textiles and footwear. In foodstuffs, the enlarged market and an increase in consumers of products using more manufactured inputs and thus with higher prices have stimulated intra-firm trade and investment flows at the regional level.

The most important change in the industrial reasoning by firms located in Argentina can be seen in those companies with new strategies for globalization. Although the strategies of these companies continue to be centered around the MERCOSUR market, subsidiary strategies have been substantially modified. The goods they sell on the domestic market are increasingly provided from abroad or produced by assembling imported components. Industrial production is adjusted to the manufacturing of a small range of goods or components for intra-firm trade. In many cases, production takes place in recently installed plants using technologies close to the highest international standards.

A recent survey indicates that there have been over 200 new investment projects, including joint ventures, M&A's, technical tie-ups, and marketing agreements, between Argentina and Brazil since 1985. These projects are considered to have been stimulated by new opportunities provided by MERCOSUR. A substantial part of these investments have entered into the manufacturing sector in contrast with investments from other regions and about a quarter is related to the service sector.

Sectors with a larger proportion of production agreements are food and beverages, automobiles, construction, fertilizers, agricultural machinery and equipment, construction materials, electrical materials, metallurgy, chemicals and petrochemicals,

steel, and plastics. Among the companies involved, some fifty are multi-nationals which are located in either country or in both countries and belong mainly to the sectors of food and beverages, automobiles, auto parts, household appliances, agricultural machinery, electrical materials, plastics, chemicals, and textile.

Sectors in which commercial agreements are predominant are auto parts, household appliances, oil and gas, and non-ferrous metals. The presence of multi-national companies is limited in the service sector. In the sectors of banking, communications, advertising, insurance, and transportation, the agreements of providing services by companies in both countries exceeded those unilateral. In the sectors of energy, business services, and supermarkets, most of the agreements are related to services to be provided by Brazilian companies. In information technology, where the number of bilateral supply agreements is equal to that of unilateral ones, the Argentine side will provide more services to Brazil.

(2) Recent trade within MERCOSUR

Intra-MERCOSUR trade has increased since 1990. In 1993, trade within MERCOSUR reached US\$10 billion, in which bilateral trade between Argentina and Brazil occupied 63% (Table 3.1.11-(2)). The share of MERCOSUR in world trade also increased from 9.9% in 1990 to 18.6% in 1993. Paraguay and Uruguay are relatively more dependent on MERCOSUR markets; around 40% of their exports go to MERCOSUR as compared to Argentina's 28% and Brazil's 14% in 1993.

Table 3.4.11-(1) Trade within MERCOSUR, 1992

(US\$ million)

| Origin | Destination | | | | Total | % |
|-----------|-------------|---------|----------|---------|---------|---------|
| | Argentina | Brazil | Paraguay | Uruguay | | |
| Argentina | - | 1,721.0 | 256.0 | 380.0 | 2,357.0 | (32.2) |
| Brazil | 3,040.0 | - | 543.0 | 514.0 | 4,097.0 | (56.0) |
| Paraguay | 64.1 | 187.0 | - | 10.8 | 261.9 | (3.6) |
| Uruguay | 250.0 | 341.0 | 8.6 | - | 599.6 | (8.2) |
| Total | 3,354.1 | 2,249.0 | 807.6 | 904.8 | 7,315.5 | (100.0) |
| % | (45.8) | (30.7) | (11.0) | (12.4) | (100.0) | |

Table 3.4.11-(2) Trade within MERCOSUR, 1993

(US\$ million)

| Origin | Destination | | | | | |
|-----------|-------------|---------|----------|---------|---------|---------|
| | Argentina | Brazil | Paraguay | Uruguay | Total | % |
| Argentina | - | 2633.0 | 304.0 | 455.1 | 3,392.5 | (34.0) |
| Brazil | 3661.0 | - | 961.0 | 775.0 | 5,397.0 | (54.1) |
| Paraguay | 64.9 | 273.0 | - | 7.2 | 345.1 | (3.5) |
| Uruguay | 402.3 | 429.0 | 12.3 | - | 843.6 | (8.5) |
| Total | 4,128.2 | 3,335.0 | 1,277.7 | 1,237.3 | 9,978.2 | (100.0) |
| % | (41.3) | (33.4) | (12.8) | (12.4) | (100.0) | |

Source: INDEC, Argentina.

(3) Chile's External economic relationships**a. Balanced trade with principal regions**

Recent Chilean trade relationships with principal regions, i.e., Asia, North America, EU, and MERCOSUR, are well balanced. This is not a result of government intervention but rather due to Chile's economic characteristics, geographical condition, and trade items. Chile's balanced trade relationships have an impact on its strategy towards external economic relationships, particularly in terms of regional economic integration, such as NAFTA, MERCOSUR, APEC, and EU. The idea of "open regionalism" reflects Chile's specific external economic situation.

During the period of 1990-1991, important buyers of Chilean goods were the U.S.A. and Japan, which accounted for 17.4% and 17.2% of Chile's total exports, respectively. Between 1991 and 1993, Chilean exports to MERCOSUR grew by 41%, and MERCOSUR's share in Chile's total exports reached a record high of 12% in 1993.

b. Chilean trade with Argentina

Chilean exports to Argentina have traditionally been concentrated in a few products but diversification has taken place in recent years. Until the 1990s, over 70% of these exports fell into only five categories, i.e., copper, wood, paper, books, magazines and newspapers, and auto parts and spares, reflecting the global pattern of Chilean sales. Currently, those products have a smaller share (less than 50%) and significant growth has been recorded in exports of a wider range of products. In particular, there has been greater penetration by certain agricultural and agro-industrial products (e.g., livestock, meat and offal, kiwi fruit, and fresh and canned apricots), chemical and petrochemical products (polyethylene), and steel products (e.g., steel barrels, drums, and containers).

Argentine exports to Chile have been traditionally more diversified with a larger share of industrial products. Argentine sales in the Chilean market covers some 3,500 products, while Chilean exports to Argentina include around 600 products. Although the

structure of these exports has been highly unstable since the 1980s due to strong swings in relative prices and in the level of domestic demand in Argentina.

Major Chilean imports from Argentina in 1993 were soybean oil (46.8), gas oil and diesel oil (26.0), sunflower oil (20.5), pork (19.2), auto parts and accessories (13.8), and aluminum (12.1). Major Chilean exports to Argentina were cathodes and sections of cathodes of copper refined (55.7), change-gear boxes (36.7), newspaper and periodical publications (29.7), vehicles of more than 1500 c.c. (24.8), vehicles of more than 1000 c.c. (19.5), trucks of 500 k to 2000 k (17.0), other refined copper (16.9), and paper for newspaper (13.3). The numbers in parentheses are trade values in US\$ million. Vehicles and trucks are exported by GM (Chile) and change-gear boxes by Renault (Chile) to Renault (Argentina).

c. Chile's relationships with MERCOSUR

At the meeting held in October 1994, each MERCOSUR country and Chile agreed to complete free trade agreements in ten years. Liberalization on the basis of existing preferences was also negotiated. Chile asked for special treatment for the rest of ALADI countries in the form of a comprehensive agreement covering trade in goods and services and other issues like investment, energy, mining, physical integration, etc. Argentina was interested in concluding an agreement linking trade preferences to compromises and obligations on other issues.

MERCOSUR agreed to extend bilateral preferential agreements that have to be re-negotiated in order to adapt them to the new customs union and its common external tariffs. The final date to conclude new free trade agreements is June 30, 1995 and a decision will be made by October 21, 1995.

Table 3.4.12 Chile's Trade with MERCOSUR

| | 1991 | | 1992 | | 1993 | |
|-----------|---------|---------|---------|---------|---------|---------|
| | Imports | Exports | Imports | Exports | Imports | Exports |
| Argentina | 553.8 | 257.4 | 633.6 | 461.6 | 580.9 | 588.9 |
| Brazil | 697.6 | 447.6 | 996.2 | 450.9 | 1,060.2 | 407.1 |
| Paraguay | 59.4 | 37.9 | 61.4 | 42.7 | 68.1 | 48.6 |
| Uruguay | 21.0 | 27.1 | 49.3 | 35.3 | 51.8 | 44.6 |

Source: Banco Central de Chile.

A draft of the agreements with Chile was discussed by MERCOSUR countries in the meeting in November 1994. The main differences between MERCOSUR and Chile were: 1) the time frame to achieve a free trade zone in goods and exceptions to free trade; 2) linkage between trade in goods and other issues; and 3) Chile's extension of any benefit and preference it may obtain from other countries and regional integration

schemes, such as NAFTA, to MERCOSUR. At the meeting, Chile was invited to join MERCOSUR but declined. Chile seeks to make some sort of free trade agreement with MERCOSUR and to realize it in a shorter period than MERCOSUR has proposed but does not wish to adopt the common external tariff scheme.

d. Chile's relationships with APEC

Chile's participation in APEC was decided in November 1993 and its formal participation was actualized in the summit meeting held in Jakarta in November 1994. Chile is focusing on the expansion of trade and investment with East Asian countries such as Indonesia and Singapore and Australia, taking advantage of the summit meeting to advance its bilateral negotiations. Chile's exports to APEC countries were US\$4.7 billion (50% in its total exports) and imports were US\$4.9 billion (45% in its total imports) in 1993. APEC has become the biggest trading partner for Chile.

3.4.1.3 Trade policies and institutions

(1) Exchange rate policy

The current exchange rate policy was instated by the Convertibility Law issued in April 1991. Its principle is that local currency must be fully backed by foreign reserves at a fixed exchange rate of one peso per US. dollar. Foreign reserve include foreign currencies, gold, and public bonds (up to 10% of the total) at the US dollar based market price. This exchange rate policy has brought about a remarkable reduction of inflation and the consequent economic stabilization.

(2) Custom tariff policy

In 1989 the government initiated a determined process of unilateral reductions in tariff and non-tariff barriers on imports. In November 1992, by Decree 1239/92, import duty and export reimbursement were fixed at the same level, as a substantial part of the reform of external trade. This was done in order to provide equal incentives to export, to import, and to production for the domestic market. Consequently, import tariffs were simplified and the maximum tariff was reduced to 20%, the minimum to 0%, and the average to 10% (Table 3.4.14).

Table 3.4.13 Import Tariffs in 1988 and 1992

| Import Tariffs | Up to 1988 | 1992 |
|-----------------------------|------------|--------------|
| Maximum | 50% + 15% | 20% + 10% |
| Minimum | 0% + 15% | 0% |
| Average | 39% | 10% + 10% |
| Production with the license | 32% | only partial |

In order to improve the trade balance, the custom tariff structure was reviewed and the statistical tax was increased from 3% to 10%. Before 1989 export duty was extensively applied but, in effect, only a few products such as oilseeds and crude leather were affected. The ratio of such duty to total exports significantly reduced from 31% in 1985 to 1.8% in the first half of 1992.

An only exception to the open trade policy is the regime for automobile industry, in which import is controlled by a specific scheme (Decree No's 2677/91, 683/94, 1179/94, and related resolutions). This regime establishes annual import quotas, equivalent to 8%, 9%, and 10% of the local production for 1992, 1993, and 1994, respectively. It permits the import of finished automobiles similar to those locally manufactured with a tariff of 2% at a fixed ratio to their respective exports.

The custom tariff adopted by Argentina on January 1, 1995 is the MERCOSUR common external tariff described in 3.4.1.2 (1).

The main policy measures instituted during 1992-1993 are as follows.

- 1) The industrial restructuring and specialization regime (Decree No's. 2641/92, Resolution ex-sic No's 14/93, 80/93, and 148/93 and Resolution M.E.P.W. No. 1149) was established for the purpose of generating productive specialization of industries for the expansion of export activity. The measure to be applied is the authorization of those industries with a reduced tariff (2%) for the goods listed in the same chapter in harmonized nomenclature. These industries are requested to present an annual business program.
- 2) In May 1993, by Decree No. 937/93, the tariff for imported materials to be used in the local production of capital goods was exempted and a 15% reimbursement was applied to the sales of capital goods produced by local manufacturers. These measures were taken in order to facilitate the restructuring of those sectors by adopting policies destined to reduce their costs and increase their competitiveness. By Resolution M.E.P.W. No. 501/93, 0% tariff and no statistical tax were applied to imported capital goods. At the same time, this decree established the reimbursement scheme (15%) and the financing scheme of BICE to facilitate the expansion of export of small- and medium-sized enterprises as stated in (3).

In July 1993, by resolution No. M.E.P.W. 684/ 93, quantitative restrictions were established on the import of certain paper products for a period of 18 months as a safeguard measure. Such a measure is approved by Article 19 of the GATT General

Agreement and has enabled a reasonable flow of import. Minimum specific import duty was also established on the import of textiles and clothing, which is to be effective until the end of 1995 as an only valid instrument against the price level of products imported from certain countries in Asia and East Europe. However, such restrictions, together with the restrictions applied to imported food in November 1993, represent only 3% of Argentina's total imports.

(3) Export promotion

a. Tax incentives

Before 1990, tax incentives such as draw-back, temporary admission, and reimbursement were provided to promote export. Since 1991, the reimbursement scheme has had a significant economic influence in terms of the magnitude of transference of funds to exporters.

In November 1992, by Decree No. 1239/92, as stated in (2), a new export mechanism was instated as a substantial part of the new trade policy to improve the real exchange rate for export and to expand protection for local industries. This new mechanism was structured by the concession of reimbursement on a scale identical to the tariff applied to imported goods (2.5%, 5%, 10%, 12.5%, 15%, and 20% by type of products). To fix the import tariff and the reimbursement for export at the same level does not mean to encourage import substitution but to create export incentives in the scheme relatively similar to that implemented in Chile.

b. Export finance

In August 1992, for the purpose of giving major liquidity and reducing running costs for export activity, a financial support scheme for production for export as shown in Table 3.4.14 was established in Argentine National Bank.

Table 3.4.14 Credit Line of Argentine National Bank

| Measures | Users | Support | Term | Interest |
|---|---|------------------------|--|--------------------------------|
| Prefinance Agriculture and Fishery Sector | Producers and/or suppliers of goods and materials who are to be final exporters | Up to 90% of FOB value | Up to 180 days | Less than 10% per annum |
| Industrial Sector | Manufacturers and/or suppliers of goods and materials who are to be final exporters | Up to 80% of FOB value | Capital goods: Up to one year Other goods: Up to 180 days | Less than 10% per annum |
| Finance Industrial Sector | Final exporters | Up to 85% of FOB value | Capital goods: Up to four years Other goods: Up to 1.5 years | 12% per annum 13% per annum |

Note: Requires a guarantee issued by first-class foreign banks or export credit insurance.

In March 1994, External Trade Investment Bank (BICE) put into operation a US\$100 million credit line for small- and medium-sized enterprises. These funds are intended for the export of new capital goods of Argentine origin, covering up to 85% of the FOB value and the export of accessories and parts for capital goods covering up to 10% of the FOB value. The terms, amounts, and interest rates of BICE's finance are as shown in Table 3.4.15. This credit requires export credit insurance or the guarantee of a foreign bank satisfactory to BICE.

Table 3.4.15 Financing Scheme of BICE

| Term | Amount (US\$) | Annual interest |
|--------------------------|----------------------|-----------------|
| From 6 months to 2 years | 20,000 to 250,000 | 8% |
| over 2 years to 3 years | 250,001 to 750,000 | 9% |
| over 3 years to 5 years | 750,001 to 2,500,000 | 10% |

Under the three-year's promotion and development program for small- and medium-sized enterprise, the government provides another US\$ 150 million credit line with a discount of 4% annual effective interest for the export of capital goods by small- and medium-sized enterprises. The maximum term is four years and the discounted interest is less than 12% per annum. This credit line is operated by Argentine commercial banks under the supervision of BICE.

As for the export promotion scheme at the provincial level, there has been no direct financing assistance for export due to fiscal restrictions, except the 7% reimbursement for goods shipped from Patagonian ports.

(4) Deregulation

Deregulation Decree No. 2284/91 instituted a wide range of joint measures in different areas, among which those related to external trade are as follows.

- 1) Elimination of all quantitative and qualitative restrictions, including governmental permission and intervention, on the export of goods and services
- 2) Elimination of quantitative restrictions on the origin of the import of goods and services, as well as any other prerequisites. Goods still subject to regulations are foodstuffs, pharmaceuticals, and automobiles.
- 3) Elimination of the law of cargo reserves by which goods transported by a national flag vessel enjoyed benefits or tax exemption

The effects of deregulation related to external trade on the domestic economy are evaluated as follows.

- 1) Improvement of the real exchange rate for export (between 4% and 5%) by the elimination of statistical tax (3%), tax directed to the National Fund of Marine Merchant (2% of freight), and other related taxes.
- 2) Reduction of indirect costs associated with external trade by simplifying customs procedures
- 3) A higher level of competition and consequent price-downs in the local market by the reduction of non-tariff barriers

In summary, the deregulation policy has had significant effects, both directly and indirectly. In many cases, it permeated not only the economic agencies involved but also economic activities, for instance, in the form of a price reduction of widely used industrial materials.

(5) Supervising organizations and regulatory frameworks

The substantial modifications in the regulatory framework of external trade accompanied a significant change in the configuration and roles of various organizations, institutions, and economic agencies. For example:

- 1) The trade matters have been separated from the Secretariat of Industry and are now under the competence of the Secretariat of Trade and Investment.
- 2) Through the reform of the National Custom Administration (ANA), its function is now concentrated on the application of tax norms and tariffs, the control of quantity and quality of goods, and infractions to customs codes (e.g., prohibiting the trade of contraband such as drugs and arms)
- 3) Dissolution of regulatory organizations such as the National Grain Board, the National Meat Board, the National Forest Institute, the Market of Fish Concentration, the Argentine Corporation of Meat Products, the Regulatory Commission of Production and Trade of Mate Tea, the National Direction of Sugar, etc.

Since 1993 new organizations, such as Trade and Investment Bank (BICE), Investment Foundation (Fundacion Invertir), and Export Foundation (Fundacion Exportar), have been created. The latter two organizations were established through collaboration between the public and private sectors with the initiatives of the Ministry of Economy and Public Works and Services and the Ministry of Foreign Affairs, respectively. The need for these foundations is expected to grow in the near future, as demonstrated by trade and investment promotion organizations in other countries such as AUSTRADE and PROCHILE. Though it may be too early to evaluate their activities, it

seems to be necessary to strengthen them, particularly for the expansion of export to and investment from East Asia.

3.4.2 Issues

As discussed in 3.4.1.1, Argentina's trade balance turned to be negative in 1992 with a sharp increase in imports of capital goods as well as consumer goods and a moderate increase in exports. This is due mainly to the expansion of investment and other economic activities under the comprehensive economic reform and outward-oriented trade policies. Therefore, Argentina needs to take effective measures to increase exports more rapidly than imports, as observed in the third quarter of 1994 for the first time since the economic reform was initiated. For this purpose, the government has been making vigorous efforts to enhance the international competitiveness of exportable products through improving efficiency and product quality. In the area of external trade institution, however, the Study Team considers that the following issues need to be further worked on for the expansion of Argentine exports, particularly to East Asian markets.

(1) Strengthening institutional support for export expansion

As indicated in Chapter 4, East Asian markets have not been approached by Argentina with its full strength, compared to its competitors such as Australia and Canada, especially in the fields of primary products and agriculture-based industrial products. Argentine exporters, with some exceptions of multi-national companies, have made few attempts to increase their sales in East Asian markets. More institutional support is deemed be desirable for establishing marketing networks in East Asia, which have business custom and distribution channels largely different from those of Argentina, or of markets more familiar to Argentine exporters, e.g., Europe and the Americas.

It is necessary for the Argentine government to support Argentine traders, for instance, by providing useful information on East Asian markets to Argentine suppliers, as well as on Argentine products and suppliers to East Asian potential buyers. The government, or any public institution with a relevant mandate, can also conduct market studies, assist suppliers to participate in international trade fairs and expositions, and develop human resources for international trading activities.

In 1993, the government and private organizations concerned jointly established Fundacion Exportar and Fundacion Invertir for the promotion of export and investment. However, their functions need to be further strengthened, quantitatively and qualitatively, particularly for the purpose of increasing exports to and investment from East Asia. The Study Team suggests that the government should take the initiative in accomplishing this

task. It is worth studying the experiences of public organizations for trade and investment promotion in other countries, e.g., JETRO (Japan), AUSTRADE (Australia), PROCHILE (Chile), MATRADE (Malaysia) and KOTRA (Korea). This issue is proposed as Issue G-I for the Phase II Study in Chapter 5.

(2) Expanding export finance, export insurance, and guarantee systems for investment and finance

In Argentina, there were not enough funds and means of export finance in the past. Although BICE was established and BNA has expanded its export credit lines, operating capital and funds are not sufficient and the interest rate is still relatively high. The government should also work for establishing efficient export insurance schemes and a guarantee system of investment and finance if it seeks to expand exports to East Asia. Favorable credit terms for importers are often as important as product and price competitiveness in winning an export contract. The Argentine commercial finance market is often unable to match the terms provided by overseas competitors because they can arrange export finance on more favorable terms under government support.

An export insurance scheme must be established as soon as possible to allow banks to finance exporters and to cover exporters' risks adequately. Principal insurance schemes required are: 1) general export insurance (coverage for exporters); 2) export bill insurance (coverage for banks); and 3) export finance insurance (coverage for banks).

The functions of Australia's Trade Commission (AUSTRADE) and Export Finance and Insurance Corporation (EFIC), both of which are government agencies, can be referred to in strengthening those of Export and Investment Foundations as well as BNA and BICE, particularly for export promotion for East Asian markets. Although AUSTRADE is not a source of working capital for export, it administers grants and loans on behalf of the Australian government with joint financial commitment from exporters. Their various financial programs help qualified Australian exporters to open new overseas markets. EFIC has been helping for 40 years Australian exporters to win business by providing solutions to their payment risks and export finance, supporting the export of around US\$3.5 billion per annum to over 100 overseas markets.

Argentine chambers and associations of commerce and industry also need to change their traditional ways of lobbying for potential negotiations to become more dynamic organizations by introducing new hardware and software into their own business and to provide their member firms with information on international markets and know-how for increasing exports. In order to create such environments, cooperation between public export promotion institutions and private organizations is very important.

The "TANGO Project" is a good example of such a kind of cooperation. The project is carried out by COPAL (Coordinadora de las Industrias de Productos Alimenticios) in close cooperation with JETRO with the purpose of increasing Argentine exports of processed foodstuffs such as wine, fruit juice, canned fruits and meat, processed tomatoes, honey, pasta, etc. to the Japanese market.

(3) Improving infrastructure for exporting primary products and MOAs

As stated in the summary and conclusions of Chapter 4, the East Asian study has found that Argentina may have lost many opportunities to expand its exports to East Asia due to insufficient export capacity including infrastructure such as loading/unloading, storage and transport facilities for export. Particularly, it is important to improve the capacity and efficiency of the operations of these facilities to compensate Argentina's geographical handicap at penetrating East Asia markets. Stable and constant supply is one of the most important factors for establishing Argentina as a leading exporter to East Asia.

In 2000-2030, Asian markets, China and India in particular, are expected to have huge demand for agricultural products such as wheat, grain feed, meat, frozen fish, dairy products, fruits, and vegetables. It is necessary for Argentina to improve infrastructure promptly through better coordination between public and private forces.

3.5 Foreign Direct Investment (FDI) **-- Argentina, An Attractive Country for Foreign Investors --**

3.5.1 The Present Situation

In recent years remarkable FDI has been flowing into Argentina owing mainly to the favorable macroeconomic environment, privatization programs, the debt-to-equity conversion program, domestic market growth and the regional economic integration of MERCOSUR. Different from the period of the 1980s, Argentina has turned into one of the most attractive countries in Latin America for foreign investors. This section reviews the recent development of FDI in Argentina and presents some policy measures to be taken for investment promotion. Japanese FDI in Argentina is dealt with in Chapter 4.

3.5.1.1 Foreign direct investment in Argentina

As discussed in Chapter 2, Argentina is clearly an outstanding case in the region. From about US\$1 billion in 1988-89, FDI flows amounted to US\$2.2 billion in 1990-91 to surpass US\$ 4.2 billion in 1992 and US\$6.3 billion in 1993 (Table 3.5.1). The bulk of such flows has been channeled into privatized enterprises although other sectors like automobiles and autoparts and food processing have also received significant flows.

This phenomenal growth in FDI inflows might easily be interpreted as a positive response of foreign investors to the deep structural reforms undertaken since 1990 by the Menem administration. Economic reforms leading to trade and foreign investment liberalization and privatization of State enterprises jointly with the Brady Plan agreement on the external debt might be seen as the main motivation forces behind the FDI boom.

The ambitious and quick structural reforms program undertaken by the Argentine government has been well received by foreign investors. One of its pillars, the privatization of public enterprises, has attracted most FDI flows. At the same time, trade liberalization, both multilateral trade and within the MERCOSUR trade, has facilitated the use of imported goods at reduced cost.

Also the special regime governing production and trade in the automotive sector and the mining investment law have attracted a significant portion of recent foreign investment flows.

Table 3.5.1 Argentina: Foreign Direct Investment Inflows, 1980-93
(US\$ million)

| Year | Total | FDI* with foreign debt-equity-swap mechanism | Privatization |
|------|-------|--|---------------|
| 1980 | 739 | 0 | |
| 1981 | 927 | 0 | |
| 1982 | 257 | 0 | |
| 1983 | 183 | 0 | |
| 1984 | 269 | 0 | |
| 1985 | 919 | 219** | |
| 1986 | 574 | 0 | |
| 1987 | -19 | 0 | |
| 1988 | 1,147 | 371*** | |
| 1989 | 1,028 | 0 | |
| 1990 | 1,836 | 918 | 1,531 |
| 1991 | 2,439 | 20 | 1,974 |
| 1992 | 4,179 | 1,512 | 3,661 |
| 1993 | 6,305 | 3,088 | 5,718 |

Source: Azpiazu (1992) and Central Bank.

*: Including privatization.

**: This figure includes data from 1984 to 1987.

***: This figure includes data from 1988 to 1989.

The countries of origin and the sectoral composition of the recent FDI in Argentina are shown in Tables 3.5.2 and 3.5.3. Since the official registry on FDI flows was abolished in 1990, no accurate information is available on the magnitude of recent flows and on their sectoral distribution. The lack of official statistical information has been partially compensated with data from the privatization programs and from the recent surveys about foreign firms' activities, by private research institute.

Table 3.5.2 Foreign Direct Investment
by Country of Origin, 1977-1989

| Country of origin | 1977 - 1989 | |
|-------------------|-------------|-------|
| | US\$ 1,000 | % |
| U.S.A. | 1,510,911 | 43.9 |
| Italy | 459,328 | 13.4 |
| Germany | 283,387 | 8.2 |
| France | 276,054 | 8.0 |
| Switzerland | 148,760 | 4.3 |
| Netherlands | 146,107 | 4.2 |
| Panama | 117,010 | 3.4 |
| Spain | 109,277 | 3.2 |
| Canada | 72,580 | 2.1 |
| Japan | 68,442 | 2.0 |
| Sweden | 46,865 | 1.4 |
| Uruguay | 42,020 | 1.2 |
| Luxembourg | 28,866 | 0.8 |
| Liechtenstein | 24,011 | 0.7 |
| Other countries | 104,996 | 3.1 |
| Total | 3,438,614 | 100.0 |

Source: Azpiazu (1992).

Regarding the country of origin of the FDI flows between 1977 and 1989, the United States occupied its leading position. The 1977-89 flows figures indicate a major participation of Italy, Germany, and France. After 1990, although the United States still occupied a leading position, FDI from Germany and Brazil occupied large share, FDI from Chile has been increasing year by year. (Table 3.5.3)

In the period 1984-89 FDI into oil and financial service sectors became less significant. In contrast, other services increased their share in FDI flows. In this period, European investors lost participation whereas investors based on tax-haven countries like Luxembourg and Liechtenstein gained share.

In recent years, joint ventures or technical tie-ups between Brazilian and Argentine companies have been increasing. Chilean investments in Argentina are also increasing, especially in those areas of woods, confectionery and supermarkets. The acquisition of privatized firms by foreign investors in joint ventures with large domestic conglomerates is another significant feature of recent FDI. Furthermore, the profits that such companies have reinvested (especially in telecommunications) have been very notable flows since 1991.

3.5.1.2 Privatization of state-owned companies

Argentina has been referred to as one of the most successful examples of privatization in Latin America. Since the enactment of law 23696 ("State Reform Law") in 1989, the Government has set up the legal framework for restructuring the country's economy through the privatization of state-owned companies. The National Airline (Aerolineas Argentinas) was one of the first public areas to be privatized. The major companies privatized under the framework of the state reform law are as follows: Entel (divided into Telecom and Telefonica); YPF; Obras Sanitarias de la Nación, Gas del Estado, Segba; and Agua y Energía Eléctrica. YPF was decided to be privatized by law 24145 of Sept. 1992. They have sold shares in the exploitation of central and secondary petroleum areas to private companies and most of the shares of the company have now been turned over to the private sector. The total amount of sales accounted for US\$3 Billion by the end of 1993. The privatization of YPF is considered as ground breaking, because strategically important industries are still in the hands of the state in other Latin American countries, such as PEMEX of Mexico, CODELCO of Chile.

The privatization of Gas del Estado implied the transfer to two gas carriers and eight gas distribution companies in the private sector. In electricity, the privatization and deregulation process was carried out through the separation of the generation,

transmission and distribution markets. In both areas, the privatization mechanism and the regulatory bodies were well designed and tariffs fixed in a more reasonable manner. Since significant incentives were maintained to attract investors, many firms submitted offers in the gas and electricity privatization programs. In some cases, the competition led to final offers by the potential participants higher than it was originally expected.

Another notable aspect of privatization in Argentina was the use of debt-to-equity swap. Since 1984 and until 1989 three debt-to-equity swaps programs were implemented. Through these programs a total amount of US\$ 590 million of FDI was accounted by foreign firms. More than half of the FDI came from United States firms, followed by Italian, Swiss, Spanish and Brazilian investors. Despite some operational differences, an explicit subsidy in the foreign debt to be capitalized was admitted by the government in the three programs.

The first program was aimed at the conversion of the external private debt with current exchange rate. Between 1984 and 1987 US\$219.5 million were converted under such program by foreign firms operating in Argentina. Near the whole amount was directed to manufacturing firms, food, beverages and chemical products. The second program was the conversion of external public debt on the basis of a discount on the nominal value of the debt. Only greenfield investments or expansion of existing plants were allowed and a minimum of fresh funds were required. The conversion was essentially made by manufacturing firms, the most important one was enterprises making autoparts and motor vehicles. The third program was the conversion of re-loans "on lending" to the private sector.

Many of those investments have been export oriented, reinforcing a structural change already seen since the mid 1980s in the Argentine economy. In view of the stagnation of the domestic market and the favorable real exchange rate, many firms, including affiliates of Trans National Companies (TNCs) in the Argentine manufacturing sector increased their export. The trend was clearly seen in intermediate goods (e.g. steel, aluminum, pulp and petrochemicals), where a number of plants have achieved scale economies, and in the processing of agricultural raw materials (e.g. vegetable oils).

During 1990-1992, it is estimated that debt swapping for US\$ 18.3 billion at face value (US\$ 11.3 billion at market value) was used for privatization. These government debt swap operations contributed to the decrease of the external debt and its interest payments, and meanwhile promoted the FDI. As a matter of fact, through the privatization process, many famous foreign companies like IBERIA, TELEFONICA DE

ESPAÑA, STET, FRANCE TELECOM, USIMINAS and so on made investment in Argentina.

It should be noted also that the privatization program contributed to improve the fiscal balance of the government through extraordinary income.

3.5.1.3 Recent FDI into the manufacturing sector

Besides FDI into privatized firms, FDI flows in the 1990s have mainly been channeled into automobiles, autoparts, food and beverages within the manufacturing sector. Among services, distribution chains and hotels have been the main destination of FDI. Oil and mining have attracted FDI into extractive industries, while agriculture has also received some FDI.

In balance of payment statistics, profit reinvestment has continued as the main source of FDI while fresh funds have been relatively unimportant. Nonetheless, it is clear that many new comers have entered into the FDI picture, as is the case in privatized firms, and that takeovers are the main mechanism used by foreigners to enter into the Argentine market.

With the FDI boom in the 1990's, the share of foreign firms in the total sales of the 500 leading manufacturing enterprises in Argentina has sharply increased between 1990 and 1992 and it is remarkable the growing share of foreign firms among the large firms (Table 3.5.4). Most of this change results from the performance of food and beverages, where significant FDI flows have been channeled. Although the global market share of foreign firms in the automobile sector has been reduced between 1990 and 1993 due to the sale of the foreign owned stock to domestic investors, foreign firms still remain as a important component of the market share.

Affiliates of TNCs are mainly oriented to the internal market, such as branded food goods, cigarettes, non alcoholic beverages, detergents and cleaning products. In contrast, in export oriented sectors such as vegetable oil and steel products, foreign firms have little participation. Sales by TNCs are concentrated in food, beverages and tobacco. Following those sectors, autoparts and motor vehicles, chemicals and petrochemicals, oil and refined oil, electronics and telecommunications and cleaning articles and cosmetics are the sectors in which foreign firms are playing an important role, though with different relative weight to exports and to sales. Nearly 83% of the sales and 90% of the exports effected by foreign enterprises in Argentina are in the manufacturing sectors.

Exports of some manufacturing sectors are completely dominated by foreign firms. This is the case of electronics and telecommunications, photographic material, glass and agricultural machinery including tractors. In these sectors, TNCs also have a leading position in sales, though only in one case they account for the sales of the whole sector (photographic material).

In a situation in which many foreign affiliates take advantage of the MERCOSUR to increase their trade coefficients and rationalize their activities to become more efficient, some globalization/regionalization strategies are gaining importance. Although these strategies have been implemented in the past by the local affiliate of IBM and in the truck production facilities owned by Saab Scania of Sweden, they are the current restructuring strategies of the autoparts, automobile, tire and industrial machinery sector.

These emerging specialization patterns have been reinforced by the regulatory framework governing production and trade in the automobile and autoparts sector and the bilateral trade agreements in force with Brazil. Since 1991, local production of motor vehicles has been protected from competitive imports through quotas and established auto makers can import vehicles at a far more reduced tariff than the general tariff for imports within the quota. At the same time in spite of the decrease of the percentage of the regional contents, the firms are obliged to generate exports -in which finished vehicles have a higher premium than autoparts- to be able to compensate the total imports. The regime is valid until 1999, when the GATT rules should be applied.

At the same time, a bilateral automotive trade agreement is in force in the context of MERCOSUR. Quotas for exchanging motor vehicles and autoparts without paying any tariff have been agreed. Each enterprise has submitted a mid term program to be able to fulfill the agreement.

This framework has proved to foster investments by existing firms and to attract firms that left the country before like General Motors and new comers like Toyota.

Table 3.5.3 The 500 Largest Firms' Sales in Argentina

(US\$ million and %)

| All enterprises | 1990 | | | 1991 | | | 1992 | | |
|-----------------|------------------------|----------------------------|------------------|------------------------|----------------------------|------------------|------------------------|----------------------------|------------------|
| | Foreign firms (number) | Total foreign firms' sales | % within stratum | Foreign firms (number) | Total foreign firms' sales | % within stratum | Foreign firms (number) | Total foreign firms' sales | % within stratum |
| The first 10th | 5 | 4,303 | 37.5 | 7 | 8,242 | 56.2 | 7 | 9,189 | 56.1 |
| " 50th | 19 | 7,484 | 36.1 | 20 | 12,611 | 45.6 | 21 | 14,402 | 45.9 |
| " 100th | 38 | 9,298 | 36.5 | 34 | 14,531 | 42.5 | 38 | 16,960 | 44.0 |
| " 200th | 70 | 10,817 | 36.0 | 67 | 16,790 | 44.4 | 73 | 19,587 | 42.7 |
| " 300th | 89 | 11,297 | 34.8 | 96 | 17,914 | 40.0 | 108 | 21,027 | 42.0 |
| " 400th | 107 | 11,586 | 34.0 | 116 | 18,453 | 39.0 | 131 | 21,632 | 44.4 |
| " 500th | 116 | 11,670 | 33.6 | 130 | 18,674 | 38.2 | 143 | 21,813 | 40.2 |

Source: Own elaboration on the basis of Prensa Economica data.

*: The total 500 largest firms' sales represent 97% of the total 820 largest firms' sales in Argentina.

3.5.1.4 Foreign investment regulations

In Argentina foreign investment is welcome and virtually unrestricted. The rules covering foreign investments are contained in the Foreign Investment Law of 1976 (No. 21382). The law has undergone significant revisions especially by decree 1853 and 1852 of Sept. 1993 leading to a highly liberal system. And at present, foreign investors are entitled to the same rules and obligations as domestic investors.

No approvals or formalities are required to effect FDI. Even if a foreign investment results in foreign ownership of more than 49% of an Argentine company, foreign investment may be made without any kind of prior approval. Foreign investors are entitled to repatriate their capital and transfer abroad their profits at any time. Foreign investors may repatriate the full amount of their invested capital at any time, regardless of the time elapsed since the investment was made. Investment guarantee treaties have been signed with a long list of countries and the goal is to reach such agreements with every country.

In the areas of banking, insurance mining and fishing, special statutes are required to apply for licenses. However, even in these areas, foreign investors are guaranteed access to licenses on an equal footing with domestic investors. The only areas still off-limits to foreign investors are mass media and atomic energy, though reforms are being studied to modify such a situation. Concerning the acquisition of an existing firm, decree 1225 of 1989 abolished restrictions of foreign acquisition of shares in existing local companies quoted on the stock market.

In other points, Argentina does not limit foreign ownership of land or real estate, except the non-mining activities near an international border and no overall national local-

content requirements exist, but the automobile industry is subject to special decrees setting specific local content rules.

3.5.1.5 Incentives for investment

The 1989 Economic Emergency Law (23697) suspended all incentives and subsidies affecting treasury or Banco Central's resources for investment. The main incentives which exist today are as follows:

- 1) Tax incentive granted to existing projects in four northern provinces under law 23658.
- 2) Tax incentive for capital goods imports (in May 1993, the Government reduced the import duty from 15% to zero for such imports.)
- 3) Special incentives for the mining sector, in particular to encourage foreign investors, a new Law was enacted in May 1993 (N°24, 196). The main benefits of the new mining system are; a) guaranteed tax stability for 30 years; b) stable foreign exchange and customs treatment; c) income tax deductibility of the full amount of prospecting and exploration outlays as well as costs related to other work to determine the technical and economic feasibility of mining operations; d) income tax deductibility of an environmental conservation allowance up to a maximum of 5% of operating costs for extraction and smelting; and e) accelerated depreciation rates on income taxes for investment under certain guidelines.
- 4) Special incentives for forestry by degree 467 and 470 also special tax benefit for Bonded area by Law 24331.
- 5) Export incentives in Oct. 1992 the Government introduced new refundment system of indirect taxes for the goods exported equal to the import tariffs applicable to the same goods. The refundment rate ranges from 2.5% to 20% according to the category of goods exported.
- 6) Regional incentives for investment in Tierra de Fuego. In the framework of MERCOSUR, it was decided to respect the free zone of Tierra de Fuego in Argentina and Manaus(*) in Brazil up until the year 2013. In the case of Tierra de Fuego, import duties, corporate tax and VAT (IVA) are excepted totally at least up until the year 2003. However, domestic tax (7%) is imposed at the time of sales of those manufactured goods to other regions in Argentina like Buenos Aires.

**Table 3.5.4 Policy and Promotional Measures for Foreign Direct Investment
(comparison of four major Latin American countries)**

| | Foreign Investment Regulations (Basic Law) | Restrictions on Foreign Ownership | Restrictions on Transfer of Capital Dividends, Earnings |
|-----------|---|--|--|
| Argentina | Foreign Investment Law of 1976 (No. 21382), Decree 1225 of 1989 Decree 1853 of September 1993 | Virtually unrestricted except two areas (broadcasting, and atomic energy). No approval or formalities are required for F.D.I. | No restrictions |
| Brazil | No specific law Incoming investment must be registered with Central Bank | Some restrictions depending on sectors (e.g. fishing industry, less than 40 %, financial sector, less than 30 %. Domestic airlines, coastal shipping, newspapers are closed to F.D.I.) SDI recommends major ownership of domestic capital irrespective of sector. | Some restrictions or special tax on the transfer of earnings, dividends or royalty. |
| Chile | Foreign investment law 600 (enacted in 1979) Revised by law 1748 of 1977. An application must be submitted to Foreign Investment Committee. | No restrictions Minimum capital US\$ 25 Thousands | Virtually unrestricted (repatriation of capital should be made after 1 year of initial investment) |
| Mexico | Foreign investment law 1973, decree of 1989, some modification of 1993 | Some restrictions depending on sectors (oil industry is almost totally closed to F.D.I.) However, no big restrictions exist for NAFTA members. | No restrictions. |

| | Employment of Local Staff | Debt Equity Conversion (DEC) | Incentives for F.D.I |
|-----------|---|--|---|
| Argentina | No restrictions except crews of fishery | Auction for DEC has not been effected since March '89. But it's allowed case by case basing on privatization program. | Tax exemption for corporate tax, Vat and import duties in Fuego Island. Specific incentives for mining sector, etc. |
| Brazil | 2/3 of the employee must be Brazilians and also 2/3 of total salary must be paid to Brazilian. | Allowed since March 1988 with some limited purpose such as new project, capital goods investment. | No specific incentives except for firms engaged in a priority sector and located in a less developed region. Also in free zone Manaus, Tax is exempted totally or partially. |
| Chile | More than 85% of the employees should be Chileans in case the company has more than 25 employees. | Allowed by foreign exchange law ART. 19 of 1985 under certain conditions. | Tax reduction for forest exploitation and also for oil or nuclear industry. Incentive of import duty or VAT for capital goods. |
| Mexico | At least 90 % of the employee should be Mexicans. | Not allowed since 1991 | No specific incentives exist except Maquiladora Industry. |

In the case of Manaus in Brazil, IPI (tax for industrial goods), ICMS (tax for distribution), import duty are exempted totally. If we compare the labor cost between Tierra de Fuego and Manaus, the cost of Tierra de Fuego is much higher than that of Manaus. Basically, a difference in salary levels exists between Argentina and Brazil. But in addition to this difference, in the case of Tierra de Fuego, Labor cost is almost 3 times as high as that of Buenos Aires (In the case of Brazil the salary in Manaus is only slightly higher than that of San Paulo).

3.5.1.6 Labor law

It is pointed out that the legislation on labor matters has had strong impacts on business costs and demand for labor. The economical disadvantage generated by the labor regulations such as the large contingent liabilities deriving from the compensations

for work-related accidents, and the costs involved in dismissing workers would discourage firms from hiring new personnel. In this regard, the government has projected a wide-ranging reform of labor regulations through legislative instruments, some of which are pending approval.

The main changes to the pre-existing labor legislation already implemented, or are being discussed at present are as follows:

- 1) The law which established convertibility plan banned the use of explicit indexing clauses in contracts, including collective labor agreements; wage adjustments were then authorized if they derived from realized productivity gains.
- 2) The government modified the labor regime for small and medium sized companies (SMEs); this was the basis of the comprehensive project now under consideration. This project would allow firms to hire new workers for periods of six months (renewable up to a limit of two years), with rebates on the employer contributions to social security. For workers already within the permanent staff of a firm, their dismissal at the discretion of the enterprise would entail a compensation of one month of salary per year worked, but this monthly value would have a cap, depending on the wage determined in the collective agreement of the respective sector. Also, firms would have the right to agree with their own workers the distribution of working hours and vacations.
- 3) In 1992, the authorities established a new regime for work-related accidents involving SMEs; at present, a project for an overall reform is being discussed with trade-unions and business organizations. Among the measures which are being considered is the establishment of a mandatory insurance for firms in order to cover accident contingencies; the project also contemplates the definition of an explicit list of work-related illnesses as a way to limit the responsibility of employers.
- 4) In 1994, the government started to implement a reduction of employers contributions to social security for enterprises in agriculture, manufacturing, construction, tourism and R&D. The reduction ranged from 30% of the previously legislated contributions for firms localized in the metropolitan area, to 80% in some provinces in the North of the country: this implied cuts in the tax components of labor costs ranging from 5 to 22% points of gross wages. It was announced that reductions in these contributions would also apply in the future to service activities, although the magnitude and the timing of such rebates appear to depend on the fiscal situation.

- 5) A system of unemployment benefits was implemented, that provides allowance to dismissed workers for periods of up to six months. The number of individuals covered by this system has been growing over time, but it remains a relatively small proportion of the unemployed persons.

Although there are various opinions on the magnitude of the influence of the labor rules on the levels of employment and unemployment, the further reforms of the labor regime will raise productivity and increase employment in the long run.

3.5.1.7 Advantages for foreign investment in Argentina

The following points are considered to be favorable factors for foreign investors.

- 1) Stable economic trend has been continuing since The Convertibility Plan was implemented. In particular, low inflation and relatively high growth of economy have been attained. The economic growth of Argentina is higher than that of Brazil and Chile. The political and social stability of Argentina could be considered higher than Brazil and Mexico.
- 2) There are virtually no restrictions for FDI and no approvals or formalities are required. Also, there are no restrictions for foreign ownership - less restricted than Brazil or Mexico. As well there are no restrictions on transfer of capital, dividends or earnings - less restricted than Brazil or Chile.
- 3) Argentina is rich in natural resources such as minerals, forest, gas, etc., having high potentiality of exploration or exploitation in the future.
- 4) As the standard of living of Argentines is relatively high, there is a selective and massive consumption trend in the market as in the developed countries.
- 5) Through the free trade agreement of MERCOSUR, the domestic market will be expanded year by year and trade volume with other three countries will increase. Foreign investors can make strategical plans including the market of other three countries, especially the Brazilian market.
- 6) Peso-U.S. dollar fixed exchange rate simplifies the calculation of cost for foreign investors.

- 7) Argentina has a very high level of education, and both a skilled labor force and capable employees are available.
- 8) As stated before there are specific incentives for mining, forestry, manufacturing in Tierra de Fuego, import of capital goods, etc.

3.5.1.8 Motivating factors behind an investment decision

Regarding the captioned subject a survey was made by a private research institute in 1994. The survey included 50 enterprises operating or with investment projects ranging various sectors like food and beverages, motor vehicles and autoparts, paper products, mining, telecommunications, gas, electrical power etc. In those enterprises, 69 foreign investors participated, 44 of which made their first investment in Argentina in the 1990s. The followings are the results of the survey.

The Argentine economic policy has been the most relevant motivating factor for those investments in privatized enterprises. Obviously the privatization scheme has been pointed out as a decisive element. The stability in economic policy and the prospects of a domestic market have also influenced investment decisions. The possibility of acquiring public firms as allowed in the revised FDI legislation was also acknowledged as an important factor. The company's internal strategic factors, like the need to have a presence in the main world markets have been less relevant in foreign investors' decision.

In some cases the possibility of access to a captive market with growing possibilities was more relevant factors than the macroeconomic situation. This is well shown by the investment made in the telephone company in 1990 in the middle of high inflation and uncertainty. Even if the macroeconomic situation in 1992 would have been less favorable, most foreign investors would have acquired the gas and electricity companies at any rate. However, the price would have been lower due to the higher country risk.

As in privatization, the prospects of the domestic market have been the key factor of investment decisions in manufacturing activities. As well, macroeconomic and political stability has been ranked high by foreign investors in manufacturing sector. The legislation on FDI has been, on the contrary, a less relevant factor taken into account, especially for firms already operating in the country. Trade policy -a less relevant issue for privatized firms- has been a significant factor in investment decisions by manufacturing enterprises. The availability of natural resources has been relevant for food processing firms and obviously for mining investors.

In contrast to the importance of the regional integration of MERCOSUR for all surveyed manufacturing firms, the eventual entry of Argentina into NAFTA was not considered important for them.

For vehicle and autoparts makers, the prospects of the national market combined with the special sectoral regime, the possibility of exporting to subregional markets, the existence of the MERCOSUR and the export promotion scheme were crucial factors in the investment decisions.

For food processing firms, the prospects of the domestic market and the stability in economic policy were even more important factors than the availability of natural resources. The need to be present in the main markets and the possibility of linking their subsidiaries to the globalization strategies have also been an important factor for them.

For mining investors, not only the availability of natural resources but also the stability in economic policy and the sectoral regulations were decisive factors for deciding their investments. Legal security and the foreign investment policy including incentives were also ranked high among the mining investors.

With the exception of the special mining case, it is possible to conclude that, in the opinion of the foreign investors, the prospects of the internal market -either in the sectors regulated by specific policy schemes, like privatization and the automotive regime, or in market driven sectors, like food and paper- have been the main attraction for the new FDI into Argentina.

3.5.2 Issues

As a result of the regional integration of MERCOSUR, the domestic market will be expanded and become more vigorous through the increase of trade among the member countries. Taking this business opportunity, new FDI has been flowing into Argentina, especially from neighbor countries. The economic integration will be a very important factor in making investment decision not only for neighbor countries but also for Asian investors.

Apart from this effect of economic integration, the following suggestions can be made for the promotion of FDI from other countries, including Asian countries, taking the investor's motivating factors into our consideration.

- 1) As a basic promotional measure, it is necessary to maintain good economic, political and social stability keeping the consistency in the policies.
- 2) The privatization policy and debt-to-equity conversion program, which played an important role to promote FDI in recent years, should be continued as much as possible expanding to other sectors, even if there are not many private companies left today due to the past progress of such program.
- 3) In Argentina, there are many industrial suppliers but they are not always well developed especially compared with those of developed countries. It is necessary to improve and reinforce the quality of goods of supporting industries.
- 4) As stated in the section 3.5.1.7, some modifications to the pre-existing labor legislation has been implemented. However, there is still room for further change especially with respect to unemployment allowance, accident compensation. Further reform of labor laws will bring more flexibility to labor market and will increase the productivity of industry.
- 5) In Argentina, there are virtually no restrictions for FDI and no permissions or formalities are required. This is basically an advantage for foreign investors. However, this system creates a difficulty to grasp and analyze the trends of foreign investment in the country.
- 6) In Argentina a special institution like INVERTIR engages in promotional activities for FDI and provides useful information to investors. However, in order to conduct an elaborate feasibility study, investors need more profound data and relative information such as business environment of each province. Therefore, it is necessary to provide foreign investors such information of thorough, accurate and up-to-date data, through the enhancement of their activities. It will be also necessary for INVERTIR to have a world wide network to engage in promotional activities abroad as has been done by Asian countries like Hong Kong, Singapore and Malaysia.
- 7) In the case of Chile, "Fundacion Chile" engages in detecting new business opportunities -business niches- that can be developed. They have created 32 new companies to date. After successful creation, those companies have been sold and transferred to various investors including foreign investors. Such function will also help to draw FDI.

3.6 Capital Market and Financial Sector Analysis

-- The Dawn of New Financial and Capital Market --

3.6.1 The Present Situation

Over recent years, there were substantial changes in Argentine capital and financial markets. As a result of the successful recovery of the economy and the consequent regaining of confidence of investors, there has been a remarkable resurgence of international capital flows to Argentina. The country as well as state-owned or private corporations have reverted to the international capital market.

In the domestic financial market, deposit both in dollars and pesos have been making a remarkable growth which allow the rapid increase in the lending capacity of banks. New pension system, which was introduced in 1994, has started to contribute to the development of the domestic financial and capital market.

3.6.1.1 The capital market

(1) Trend of foreign capital inflow

There has been a remarkable resurgence of international capital flows to Latin American countries. In the four years 1990-1993, these countries have received a net capital inflow of US\$166 billion. This represents a major change against the previous decade, when there was a debt crisis and little capital flowed to Latin American nations. Both external and internal factors have played an important role in the sharp rise in capital inflows. In the case of Argentina, because of the rapid recovery of economy and political stabilization, the capital inflow has gained momentum in the past few years.

In 1993, the net borrowing from abroad (debt) was of US\$5.3 billion compared with US\$2.0 billion in 1991 and US\$7.7 billion in 1992. Net inflows of Equity Investment, including the US\$2.1 billion of the external sale of YPF, reached to US\$7.2 billion compared with US\$4.2 billion in 1992. International financial institutions provided US\$4.2 billion in disbursements in 1993, much of which was used to finance the up front costs of the debt and the debt service reduction agreement with commercial banks. These disbursements included US\$1.6 billion from the IMF, US\$1.5 billion from The World Bank, and US\$1.0 billion from Inter-American Development Bank. The Japanese Government provided new resources mainly to finance the acquisition of collateral under the Brady Agreement. Japan EXIM Bank approved a US\$350 million line of credit to finance imports in 1993.

(2) Debt and equity issue in the international market

Latin American debt issuance set a record of US\$25 billion in 1993. The private sector outpaced the public sector accounting for 64% of a new issue volume. Argentina accounted for 25% of Latin America's 1993 debt issuance. In 1992, Argentina accounted for only 11% of the new issuance. The average term of maturity increased 1.1 years, from 3.7 years in 1992 to 4.8 years in 1993. The longest average term to maturity was that of Mexico at 5.91 years. The maturity of Argentina was 4.1 years compared with 3.8 years in 1992. In 1993, Argentina placed US\$2.2 billion in international markets, including the first global issue by a Latin American Sovereign Borrower. This was a 10-year-fixed rate \$1 billion issue priced to yield 280 basis points over U.S. Treasuries.

Corporate borrowers also took advantage of the regained confidence in the country and prevailing low international interest rates. The main private borrowers were commercial banks, telecommunications companies and oil companies. The spreads of the most private corporate borrowers were in the 450 to 600 basis point range over U.S. Treasuries. YPF, however, was able to place a fixed interest rate 10 year US\$350 million yankee bond in early 1994, with a spread of 232 basis points over comparable U.S. Treasuries, below Argentina's spread. In July 1994, the Republic placed a \$750 million Eurobond in London Market with a spread of 220 basis which is the lowest past level.

(3) Credit ratings by American agencies

The credit standing of all new Eurobonds issued by the Government of Argentina and Argentine companies, such as U.S. dollar-denominated Eurobonds and Bonex series, has improved as a result of the upgrading of the rating by American agencies.

Moody's Investors Service upgraded the rating of Argentina from B3 to B1 in July 1992. This rating is higher than that of Brazil (B2) but lower than that of Chile (Baa 2). Those elements which the Rating Agency considers important are as it follows:

- Economic political and social stability
- Consistency of Economic Policy
- Economic Growth
- Repayment Capacity of External Debt especially in relation to export
- Willingness of Repayment of the External Debt
- Industrial Growth
- Unemployment Ratio

It will be necessary to make an effort for upgrading in order to raise funds in the international capital market under favorable conditions. As long as the present favorable

macroeconomy of the consistency of its policies are maintained, it is likely that the credit rating will be upgraded in the near future.

Last year, "The World Competitiveness Report 1994", which is organized by the private research institute in Switzerland, ranked Argentina as 27th position among 41 countries. The ranking of Argentina is higher than Italy, Korea and Brazil. The report aims at the revaluation of the ability of a country to generate more wealth than its competitors on the base of the worldwide opinion of entrepreneurs. Their approach is based on 8 factors such as domestic economic strength, internationalization, government, infrastructure, finance performance, etc., which economists think make or break a nation's competitive environment:

In the case of Argentina, the government policies are highly appraised as a key to competitive position. Out of 41 countries reviewed, Argentina ranked 14th in the government factor. Finance factor was also rather good (23rd) but infrastructure (31st place) and management (32nd place) were ranked low. Although their approach is different from the Moody's or S&D's point of view, the high ranking of Argentina certainly encourages the country and will even influence on investor's decision to some extent.

(4) Trend of Brady Bond price in the secondary market

Trading volume of LDC debt has been increasing year by year. In 1989 the total trading volume of LDC debt was only US\$15 billion. But in 1992 this amounted to US\$350 billion, mainly due to the new issue of Brady Bonds like those of Mexico and Argentina. Argentina's Brady Bonds consist of par bonds (US\$12.6 billion), discount bonds (US\$4.3 billion) and FRB (US\$9.8 billion). During the last few years the price of Brady Bonds in the secondary market has increased, mainly due to the reasons of the regaining of investors' confidence in the Argentine economy and the decrease of the U.S interest rate.

Take discount bonds, for instance. The price hiked around 90% of face value at the end of 1993. However, since the beginning of 1994, the price of both discount and par bonds have decreased sharply for the following reasons:

- Sharp increase of U.S. interest rate.
- Prevailing uncertainties about political and economic situations of Latin American countries, such as the Chiapas revolt in Mexico and the final crisis in Venezuela.

Although the price level of those bonds has been strongly influenced by the U.S. interest rate, it is probable that investors will pay more attention to the economic and political fundamentals of each country in the future.

Table 3.6.1 Amount of Brady Bond According to Country
(US\$ billion)

| | |
|-----------|-------------------|
| Brazil | 42.8(share 33.5%) |
| Mexico | 31.4(share 24.6%) |
| Argentina | 26.8(share 21.0%) |
| Venezuela | 18.9(share 14.8%) |

Table 3.6.2 Average Life and Spread
(Compared with U.S. treasury bond)
(As of July 1994)

| | Years | | BP |
|-----------|-------|------|-------|
| Brazil | PAR | 29.7 | 1,071 |
| | DIS | 29.7 | 1,266 |
| Mexico | PAR | 25.4 | 595 |
| | DIS | 25.4 | 600 |
| Argentina | PAR | 28.7 | 797 |
| | DIS | 28.7 | 851 |

(5) Argentine domestic capital market

Argentina's capital market has resumed a sustainable and a rapid growth. In the past few years, the National Securities Commission (CNV) played an important role in promoting the growth of capital markets and in reinforcing their effectiveness and transparency.

CNV, an independent body since 1986, is the capital markets' regulatory body. Its main responsibilities are to supervise and authorize public offer, preserve transparency and investor's safeguards and impose sanctions. This body approved the rules, controls and penalizes stock and security exchanges, stock exchange brokers, dealership system, security depository systems, future and option's markets and mutual funds, and regulates pension funds systems and risk rating agencies.

During 1991-1992, the CNV made important changes to the rules in order to make it easier to finance and increase safeguards for investors, and achieve an adequate modernization of the current trading practices. The rules implemented are as follows:

- Deregulation of brokerage commissions, removal of stamp and transfer taxes, and reduction of stock exchange dues.
- Legislation for the issuance of corporate bonds (in 1989), approval of the issuance of commercial paper (in 1991), new requirement for all companies to obtain credit rating for debt issues.

- Establishment of a maximum daily variation in the price of any share of 15% for all of the authorized markets.
- New measures related to the registration of trades as well as the capital and accounting requirements of agents in the counter market.
- Minimum capital requirements for all firms operating in the securities markets.
- Implementation of common information and publication requirements for all the markets in the republic.
- Regulation regarding the use of inside information and public disclosure.
- Simplification of the balance sheets of Argentine companies and the application of common criteria with international standards.
- Establishment of regulations for companies to access international capital markets

The above mentioned measures have created greater security for all investors and promoted the growth of the market.

(6) Stock market and debt market development

The local stock market index rose by 53.5% during 1993, mainly due to the inflow of foreign capital. At the end of 1993, non-resident holdings of shares listed in the Buenos Aires market amounted to US\$6.5 billion compared with US\$3.1 billion in 1992. There are 160 companies listed in the Buenos Aires stock exchange, which was founded in 1964 and deals about 90% of all Argentine stock markets. They had a market capitalization of US\$41 billion in March 1994 compared with US\$18.5 billion in December 1991 and US\$18.6 billion in December 1992. When the Convertibility Law was introduced it was only US\$5.2 billion. This increase in the market capitalization was the result of the privatization of the stated owned companies. The Argentine stock market is highly concentrated. Five companies account for 70%, 25 companies for 90% of the market capitalization. In particular, three companies, YPF, Telecom, and Telefónica, concentrate the transactions on the top. The total dealing amount of stocks, corporate and public bonds increased from US\$7.2 billion in December 1992 to US\$17.1 billion in July 1994.

Table 3.6.3 Argentine Stock Market

| | 1987 | 1988 | 1989 | 1990 | 1991 | 1992* |
|--------------------------------------|-------|-------|---------|-------|---------|----------|
| Market capitalization (US\$ billion) | \$1.0 | \$2.0 | \$2.9 | \$3.3 | \$18.5 | \$23.1 |
| Volume (US\$ million)** | \$201 | \$423 | \$1,003 | \$788 | \$4,827 | \$16,886 |
| Number of listed companies | 206 | 194 | 184 | 181 | 170 | 173 |
| Rate of return in US dollars (%) | 6.2% | 98.8% | 69.6% | 2.9% | 361% | 25.0% |

* As of November 30.

** On the BASE.

Source: CNV.

The Argentine stock market is regulated by the CNV, the Bolsas de Comercio (Stock Exchanges) and the Mercado de Valores and Caja de Valores (clearing house). There are 10 stock exchanges in Argentina, of which five are authorized to quote securities: Buenos Aires, La Plata, Cordoba, Mendoza and Rosario. The oldest and

largest is the Buenos Aires Stock Exchange (Bolsa de Comercio de Buenos Aires or "BASE") founded in 1854.

Table 3.6.4 Market Capitalization

| | (US\$ billion) | | | | | | | |
|----------------------------|----------------|------|------|------|------|------|------|------|
| | 1989 | 1990 | | 1991 | | 1992 | | 1993 |
| | Oct. | Mar. | Oct. | Mar. | Oct. | Mar. | Oct. | Mar. |
| Government Bonds | 4.3 | 6.1 | 7.8 | 7.4 | 8.1 | 9.8 | 7.7 | 9.0 |
| Equities (Corporate Bonds) | 4.7 | 2.7 | 3.2 | 5.2 | 14.1 | 25.7 | 17.0 | 18.8 |
| Total | 9.0 | 8.8 | 11.0 | 12.6 | 22.2 | 35.5 | 24.7 | 27.8 |

Month-end figures.

Sources: Banco Central and CNV.

The Argentine bond market is dominated by the national government's securities, especially the bonex, which are U.S. dollar-dominated and highly liquid securities (Table 3.6.5).

Table 3.6.5 Public Bonds

| | (US\$ million) | | | |
|--|----------------|---------|-----------------|-----------|
| | Issued | | Public Holdings | |
| | 1991 | 1992(2) | 1991 | 1992 |
| BOCE II and III | 73 | 6 | 73 | 6 |
| BOCREX, I, II and III (3) | 105 | 114 | 105 | 114 |
| BIC 89, I, III and IV (3) | 294 | 324 | 294 | 324 |
| BIC V | 1,075 | 1,043 | 1,075 | 1,043 |
| BOCATE | 15 | 9 | 15 | 9 |
| BOCON (social security)(4)(5) | - | 3,888 | - | 3,888 |
| BOCON (suppliers)(4)(5) | 0 | 2,131 | - | 1,331 (6) |
| BOTE I | 1 | 1,762 | 1 | 1,762 |
| BOTE II | - | 158 | - | 158 |
| BOTESO - 5 and 10 years | 0 | - | - | - |
| BONEX 82 | 374 | - | 374 | - |
| BONEX 84 | 373 | 250 | 373 | 250 |
| BONEX 87 | 746 | 625 | 511 | 428 |
| BONEX 89 | 4,345 | 3,810 | 3,303 | 3,130 |
| BONEX 92 | - | 1,000 | - | - |
| Eurobonds 11%/93 | 200 | 200 | 200 | 200 |
| Eurobonds 9.5%/93 | 300 | 300 | 300 | 300 |
| Eurobonds 8.25%/97 | - | 250 | - | 250 |
| Other public debt to be consolidated (7) | 18,445 | 9,609 | - | - |
| Total | 26,346 | 25,480 | 6,624 | 13,193 |

Source: Ministry of Economy.

Prior to 1989, the Argentine government had issued a variety of indexed, austral-denominated securities which traded in liquid markets. On December 28, 1989, however, all government securities other than Bonex were refinanced pursuant to the Bonex Plan into Bonex 89. Subsequently, the Argentine government issued three austral-denominated instruments: BIC ("Bono de Inversion y Crecimiento"), BOCE ("Bono de Consolidacion Economica") and BOCREX ("Bono de Credito a la Exportacion"). On September 10, 1991, holders of BOCREX were given the option to

exchange their bonds into a new government security, BOTE ("Bonos del Tesoro"). Bonex are traded in the over-the-counter market ("OTC"), which represents 98% of the market, and on the Buenos Aires Stock Exchange which has the remaining 2% of the market. The table below presents data on Argentine public bonds issued and publicly held in 1991 and 1992.

Argentine private debt is represented by corporate bonds (Obligaciones Negociables). There are debt securities issued by private Argentine companies, in local currency or U.S. dollars and in some cases with bank guarantees. The rate of interest can be fixed or floating.

To make a public offer, corporate bonds must be authorized by the CNV and requires that the issuing companies be rated according to their risk by two different companies. This rating makes corporate bond offerings more transparent to investors. The simplicity and speed of the administrative process has permitted an increase from four issuing companies of corporate bonds in 1989 to 92 companies as of May 1993.

In the international capital market, Argentina placed 46 bonds both private and public during 1993. The total value of those papers amounted to US\$5.8 billion and occupied 25% of all the Latin American bonds issued in the same year. The average life of Argentine bonds was prolonged from 3.7 years in 1992 to 4.5 years in 1993. The margin spread also decreased favorably from 460 BPs in 1992 to 410 BPs in 1993. Even though total issues of Latin American bonds in the first half of 1994 decreased by almost 50% compared with the same period of 1993, the share of Argentine bonds still occupied 28%.

(7) Introduction of a new pension fund system

The new system, which became effective in August 1994, provides workers with the option of remaining with the current State pension scheme or joining a private scheme. The same Law states that workers over 18 will contribute 11% of their income if they are salaried, and 27% if they are self-employed, in the new system. Every worker will have a pension, whether they remain in the State scheme or join a private pension fund. The size of those funds will depend on amounts paid in by each individual while they are part of the workforce. Pensions are to be paid to workers at the age of 65, after they have paid contributions for a minimum of 30 years.

There are 25 private companies authorized to operate with those funds. The private system will grant a pension according to the yields obtained, positive or negative,

on the funds paid in during the working life. The workers can choose the company and they can even change it, twice a year maximum, if they are not satisfied with the result of yields obtained by the company. Those companies are able to invest in a wide array of private and public assets like stocks, government securities, bonds issued by international institutions like IDB, World Bank, mortgage backed securities, C.D., mutual funds and so on. The new system will channel employee contributions estimated at US\$ 150-200 million per month. This system is expected to contribute to the development of capital market of Argentina.

3.6.1.2 The financial sector

(1) Financial system

As of February 1994, Argentina's financial system was conformed by 162 commercial banks (30 state owned banks and 132 privately owned banks). Of them, three are investment banks, one development bank, one mortgage bank and one savings bank. The principal authority that supervises financial institutions in Argentina is the Central Bank. Among 132 privately owned banks, 63 are Argentine owned banks, 30 are foreign banks and 39 are cooperative banks.

Table 3.6.6 The Argentine Financial System
(As of December 31, 1993)

| Type of Institution | Number | Loans (percentage of total) | Deposits (percentage of total) |
|--------------------------|--------|--------------------------------|-----------------------------------|
| Commercial banks | | | |
| State-owned | 30 | 39.8% | 40.2% |
| Private domestic | 102 | 35.9 | 41.8 |
| Private foreign | 30 | 14.2 | 14.9 |
| | 162 | 89.9 | 96.9 |
| Investment banks | 3 | 0.1 | 0.1 |
| Mortgage bank | 1 | 6.5 | 0.4 |
| Savings bank. | 1 | 2.1 | 1.4 |
| Non-bank financial firms | | | |
| Finance companies | 21 | 1.2 | 1.0 |
| Credit unions | 17 | 0.2 | 0.2 |
| Savings society | 1 | 0.0 | 0.0 |
| | 39 | 1.4 | 1.2 |
| Total | 206 | 100.0% | 100.0% |

a. Private sector banks

Central Bank data of February 28, 1994 shows that Argentine-owned private commercial banks' share accounted for approximately 31.9 % of deposits and 30.8 % of loans. Based on amount of deposits, the largest Argentine-owned private commercial banks are Banco Río de la Plata S.A., Banco de Galicia S.A., Banco Credito Argentino S.A., Banco Francés S.A., Banco Quilmes S.A. and Banco Roberts S.A.

On the other hand, foreign banks play an important role in the Argentine banking system. As of February 28, 1994, their share accounted for approximately 14.2% of deposits and approximately 15.7% of loans, and according to the amount of deposits, the largest ones are Citibank, Deutsche Bank AG and Banca Nazionale del Lavoro S.A.

b. Public sector banks

As of February 28, 1994, government-owned commercial banks accounted for approximately 41.6% of deposits and 37.3% of loans. The largest government-owned banks or related to them are Banco de la Nación Argentina, Banco de la Provincia de Buenos Aires and Banco de la Ciudad de Buenos Aires. Unlike to private banks, government-owned banks monopolize public sector's deposits and also the administration of funds. In addition to it, the minimum legal reserve requirement on checking and saving accounts applied to public sector's banks is lower than those applied to the private ones.

c. Official banking system

1) Banco de Inversión y Comercio Exterior S.A. (BICE)

BICE was established on 1993 as a commercial national bank with a capital stock held by the Ministry of Economy, the "Banco de la Nación Argentina" and the "Banco Hipotecario Nacional." BICE acts as a wholesale bank (second-tier institution) for financing to investment projects and foreign trade, mainly for medium and long term periods. BICE's funds are constituted as follows:

- Own capital (U.S. \$ 250 million)
- Issue of MTN in the international capital market under the government guarantee.
- Borrowing from international financial institutions like IDB, Exim Bank of Japan, World Bank.
- Borrowing from government financial institutions of other countries like Spain, France, Switzerland.

BICE is unable to finance directly to the borrowers. They are allowed to finance through tier-one commercial banks only.

2) Banco Hipotecario Nacional (BHN)

BHN was re-organized in 1990 closing 30 of its 53 branches. The purpose of BHN is to finance the purchasing of new house or its construction. The personal loans for the purchase or construction of housing units are subjected to some conditions such as holders of the TIAVI (housing savings bond) and the title of land. Loans are granted in US. dollars for 15 years accruing interest at a variable rate equal to Libo plus 5 B.P. The amount is extended between a minimum of US\$ 10.000 and a maximum of US\$ 40.000. BHN grants loans to construction companies for building up of individual housing units as well.

3) Banco de la Nación Argentina (BNA)

BNA is mainly engaged in the financing for the development of the productive sectors of Argentina. Related to its role, in the domestic market BNA is particularly involved in short and medium-term financing for agriculture, industry and commerce. Internationally, BNA acts as government's financial arm to attract foreign investments. BNA has a decisive influence on the reduction of the domestic interest rates in a market in which rates are not regulated by the Central Bank.

(2) Finance system for small and medium sized companies.(PyMEs)

Following finance systems are prepared to finance PyMEs.

a. BICE'S financing program for exports of PyMEs

This program has a credit line of US\$ 100 million in total to finance exports of capital goods of Argentine origin. Maximum and minimum amounts for the loans are from US\$ 20,000 to US\$ 2,500,000 per year and per company. Interest rates are fixed according to the amount and period. Requirements as guarantee are: Loan insurance for exports against extraordinary risks, ordinary, commercial risks or guaranteed by a foreign bank with BICE's agreement.

b. BNA's credit facilities

By raising funds in the international capital markets, BNA has been financing the export of capital goods by small and medium sized companies and for export pre-finance. BNA has also other facilities for the purchase of capital goods and investment for manufacturing purpose.

c. Governmental support for PyMEs

A special finance program in the form of subsidy has started in 1993. It means, the government subsidizes the equivalent to 4% of interest rate between lender (commercial banks) and borrower. Terms of loans are three years for working fund and four years for import of capital goods. There are some other programs that have been prepared for PyMEs, such as:

- Global credit line of IDB to finance PyMEs (US\$60 million in total).
- Credits for small agricultural enterprises.
- Funds for technological development (US\$68 million).
- Credits for innovation and technology transfer.
- Credits for the establishment of joint venture companies.

As stated above, some specific program to support PyMEs has been prepared by the government. However, most of the program including BICE's financial support has started just in recent years and they have not fully materialized yet.

In comparison with large companies, it is not so easy for PyMEs to obtain credit from financial institutions because of the lack of adequate mortgage and guarantee or unsolid financial standing. Even if they succeed to obtain it, the terms and conditions are relatively unfavorable with higher interest rate, shorter period and more limited amount of loan.

For this reason, official financial system to support PyMEs will be important including a credit guarantee system which the government is now studying under the cooperation of IDB.

(3) Domestic savings

a. Trend of savings

In the 1980s, the level of domestic savings has decreased because of the higher inflation indexes and the prevailing financial crisis. In addition, Malvinas War in 1982, caused the capital outflow of the private sectors to foreign countries. For this reason, the domestic savings as a percentage of GDP remained less than 10% during the 1980s.

However, after the implementation of the new economic plan in 1991, the saving ratio became increasing year by year. As a matter of fact, the declination of inflation index brought the positive and effective interest rate, which has prompted people to increase their deposit in the banks.

Table 3.6.7 Trend of M2 as a % of GDP

| | 1989 | 1990 | 1991 | 1992 | 1993 | 1994E |
|------------------|------|-------|-------|-------|-------|-------|
| Domestic Savings | 8.9% | 10.7% | 14.8% | 15.9% | 17.7% | 20.3% |
| Public | NA | NA | -0.4 | 1.4 | 1.4 | 1.5 |
| Private | NA | NA | 15.2 | 14.5 | 16.3 | 18.7 |

Source: Solomon Brothers Inc. estimate.

b. Composition of deposits

As of December 1993, deposits in pesos occupy more than half of the total, however, dollar deposits become increasing rapidly. During the period of Dec. 1992 and Dec. 1993, they have increased by 68.4%, and since the introduction of the "Convertibility Plan" until 1993, they have been increased by 450%. The notable growth of deposits in dollars could be regarded as a recuperation of the saver's confidence in the domestic financial system. It is estimated, however, that a lot of dollar deposits still remain outside of the country for fear of future adoption of foreign exchange control.

c. Term of deposit

In Feb. 1993, the Central Bank abolished the time deposit within 30 days. The term of deposits has been prolonged in these years. However, especially the term of

deposits in pesos is still very short (30 to 60 days). Banks are reluctant to quote an interest rate for more than six months.

d. Legal reserves for deposits

All the banks are obliged to keep legal reserves for deposits with the Central Bank as per the following rule:

| | |
|--|---------------------|
| Time deposit: | 3% of Total amount |
| Current account and Sight deposits: | 43% of Total amount |

At present, the Central Bank does not have intention of decreasing this percentage of legal reserves.

e. Interest rate on deposits

The interest rate on deposits has been decreasing with the decline of the inflation index. As of September 1994, the interest rate on Peso time deposit is around 6%-8 % and 4%-5% on dollar deposit.

(4) Investment and saving

Table 3.6.8 The Gap between Investment and National Savings
(As a percentage of GDP)

| | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 |
|-------------------------------|------|------|------|------|------|------|------|------|------|
| Total Domestic Investment (I) | 14.1 | 12.5 | 12.4 | 13.2 | 13.2 | 11.4 | 9.4 | 8.1 | 11.5 |
| Total National Savings (S) | 9.8 | 8.6 | 10.6 | 9.7 | 6.6 | 8.9 | 7.5 | 9.8 | 9.3 |
| (I) - (S) | 4.3 | 3.9 | 1.8 | 3.5 | 6.6 | 2.5 | 1.9 | -1.7 | 2.2 |

Source: Central Bank

Table 3.6.8 shows that all through the 1980s, there existed a shortage of investment (I-S GAP), which was mainly caused by the shortage of savings of the public sector. In 1985 this I-S gap has reduced down to 1.8%, however after 1985, it expanded due to the introduction of the investment program of industrial and agricultural sectors and the construction program for housing, under President Alfonsín Administration. After 1988, this I-S Gap reduced again because of the retrenchment policy of President Menem Administration and the increase of the national savings.

(5) Loans by the financial system**Table 3.6.9 Balance at the End of Period in Million Pesos**

| | In pesos | | In foreign currencies | | Total | |
|-------------|----------|----------------------|-----------------------|----------------------|--------|----------------------|
| | Amount | Annualized Variation | Amount | Annualized Variation | Amount | Annualized Variation |
| March 91 | 14,853 | | 8,1413 | | 23,266 | |
| December 91 | 18,573 | 34.7% | 12,367 | 67.2% | 30,940 | 46.2% |
| December 92 | 22,302 | 20.1% | 20,333 | 64.4% | 42,635 | 37.8% |
| November 93 | 25,436 | 15.4% | 24,334 | 21.6% | 49,770 | 18.4% |

| Variation | In pesos | | In foreign currencies | | Total |
|-----------|-----------|-------|-----------------------|--------|--------|
| | Mar. 1991 | 71.2% | Nov. 1993 | 189.3% | 113.9% |

| | In pesos | | In foreign currencies | | Total | | |
|-------------------|----------|---------|-----------------------|---------|---------|---------|----------|
| | Mar. 91 | Nov. 93 | Mar. 91 | Nov. 93 | Mar. 91 | Nov. 93 | Variant. |
| To Public Sector | 5,410 | 5,108 | 1,592 | 3,610 | 7,362 | 8,718 | 18.4% |
| To Private Sector | 9,443 | 20,328 | 6,461 | 20,725 | 15,904 | 41,052 | 158.1% |
| Total | 14,853 | 25,436 | 8,413 | 24,334 | 23,266 | 49,770 | 113.9% |

As of end of 1993, loans in pesos and in foreign currency (actually in dollars) have reached almost even share. Firms prefer to borrow in dollars for working or investment funds, because the term of the loan is relatively longer and the interest rate is lower than that of the pesos.

The term of a loan is usually short (less than six months) for the following reasons:

- Not many years have passed since the economy was stabilized and the hyper-inflation was overcome.
- As the funding side of the banks, the term of deposits is still very short. Financial institutions are, therefore, unable to grant long-term loans, due to the unmatched between deposits and loans.
- It is not easy to dispose the mortgage received from borrowers in the case that a default takes place. In other words, borrowers are protected by law more than lenders.
- Money supply is not sufficient to catch up the economic growth.

Those firms which need to obtain long-term funds usually depend on the following sources:

- Make use of the official finance system like BICE
- Issue of commercial papers
- Issue of bonds in the international financial markets
- Increase of the capital
- Make use of inter-companies credit
- Borrowings from stockholders

3.6.2 Issues

As stated above, Argentine capital and financial markets have been developing rapidly in recent years as a result of the government's successful economic reforms. As long as the present favorable macroeconomic fundamentals and the consistency of the policy will be maintained, it is foreseeable that the market will grow further. And that will strengthen the competitiveness of Argentine corporations through the necessary financing for modernization, computerization or rationalization. It will be worthwhile, however, to bear in mind that the following factors might produce negative impact on the market or on the economy in the future.

1) Foreign capital inflow is able to contribute to the market growth directly, or indirectly through the increase of money supply and the expansion in domestic credit. However, foreign capital inflows especially a purely short term nature capital are apt to decrease suddenly either for external factors or internal factors. Since this decrease will bring adverse effect on the market, the trend of capital inflows should be watched closely. Instead, the domestic growth of deposit and credit will be more reliable and supporting element for the market growth.

The government has been taking new measures to encourage local savings. The most important of new measures is the reform of the social security system that incorporate the creation of private pension funds started in July 1994 (see 3.6.1.1 (7)). We can suggest other measures such as restraint of private consumption through increase of IVA and restraint of public consumption especially that of local government through the restriction of their borrowing. The increase of the domestic saving will certainly contribute to the sound growth of market and the increase of productive investment.

2) There are official finance programs for PyMEs, which are granted through public banks (BICE, Banco de la Nación Argentina) or through private commercial banks. However, such finance is not enough to satisfy their financial needs which will delay or impede the modernization and restructure of PyMEs in the long run. It is not so easy for PyMEs to obtain finance from commercial banks mainly because of the lack of adequate mortgage or guarantee and fragile financial standing. It would be necessary to study some new measures such as an official guarantee or a credit insurance system to facilitate them the access to the financial system.

3) Most of the financial institutions have been privatized and still this process for regional state owned banks is going on. As a result of the privatization of banks and opening of the financial market, the competition among banks is growing more intensively. In such circumstance, there may be some banks which will be compelled to

terminate their business. At present, there is no measures to protect the interest of savers for their deposit if the bank fall into bankruptcy. In the future, it would be worthwhile to study the adoption of an insurance system like that of the United States.

4) Influenced by the calm of the inflation, the interest rate on the credit has been decreasing in these years. However, the interest rate of bank loans do not keep pace with the decline of inflation rate. In particular, the peso loan remains still high. Companies are, therefore, obliged to pay a high financial cost which may impede the modernization or computerization of their equipment machinery and administration system. This high interest rate originates from the banks' high administration and funding costs, as well as the high legal reserve imposed on deposits by the authorities. Banco de la Nación is trying to decrease the interest rate on credit as a market leader. However, the study of some supplemental measures will be necessary to promote the decrease of interest rate.

3.7 Transportation

-- Modernizing Facilities and Upgrading Services for Competitiveness --

3.7.1 The Present Situation

The observation described in this section in connection with each subsector of transport sector are all based on the concept and views of the Japanese experts formed in the course of surveys on existing conditions of Argentine transport facilities, result of frequent visits to concerned agencies and exchanges of opinion with Argentine counterparts assigned to the transport sector. The survey and exchanges of opinion for the phase I study were made on the following themes;

- Present situation of transport networks, infrastructures and traffic volume of each subsector after implementation of privatization, deregulation and decentralization
- Process and impacts of privatization, deregulation and decentralization of each subsector
- Development plan of each subsector under the current program of privatization, deregulation and decentralization

3.7.1.1 Transportation networks and infrastructure of each subsector

About 70 % of population are living in the area within a radius of 600 km from Buenos Aires and more than 50 % of national economic activities have been carried out in this region called Humid Pampa and all the products were transported to and from Buenos Aires. As a result of such centralized development, the transport networks and infrastructures in the country have been formed in a radial network of railways and roads extending outwardly from Buenos Aires. River transport through La-Plata and the Parana have also developed as parts of this radial transport networks as shown on Figure 3.7.1.

Under such conditions of Argentine transport system the infrastructures and transport capacity of regional land transport system have been limited and left without any investment for development and rehabilitation. Traditionally the maritime transport service has depended on the river transport, which can not accommodate larger carriers owing to the limited draft through the channel, although the maintenance dredging for those channels is required to keep navigable of calling ships. Lack of modernization investment, maintenance and poor management have caused underdeveloped situation of ports and harbors. These conditions are caused the adverse effect of raising the transport cost and subsequently export price of agricultural and industrial products. The present conditions of transport networks of each subsector are described below.

Figure 3.7.1 Major Transport Network of Argentina

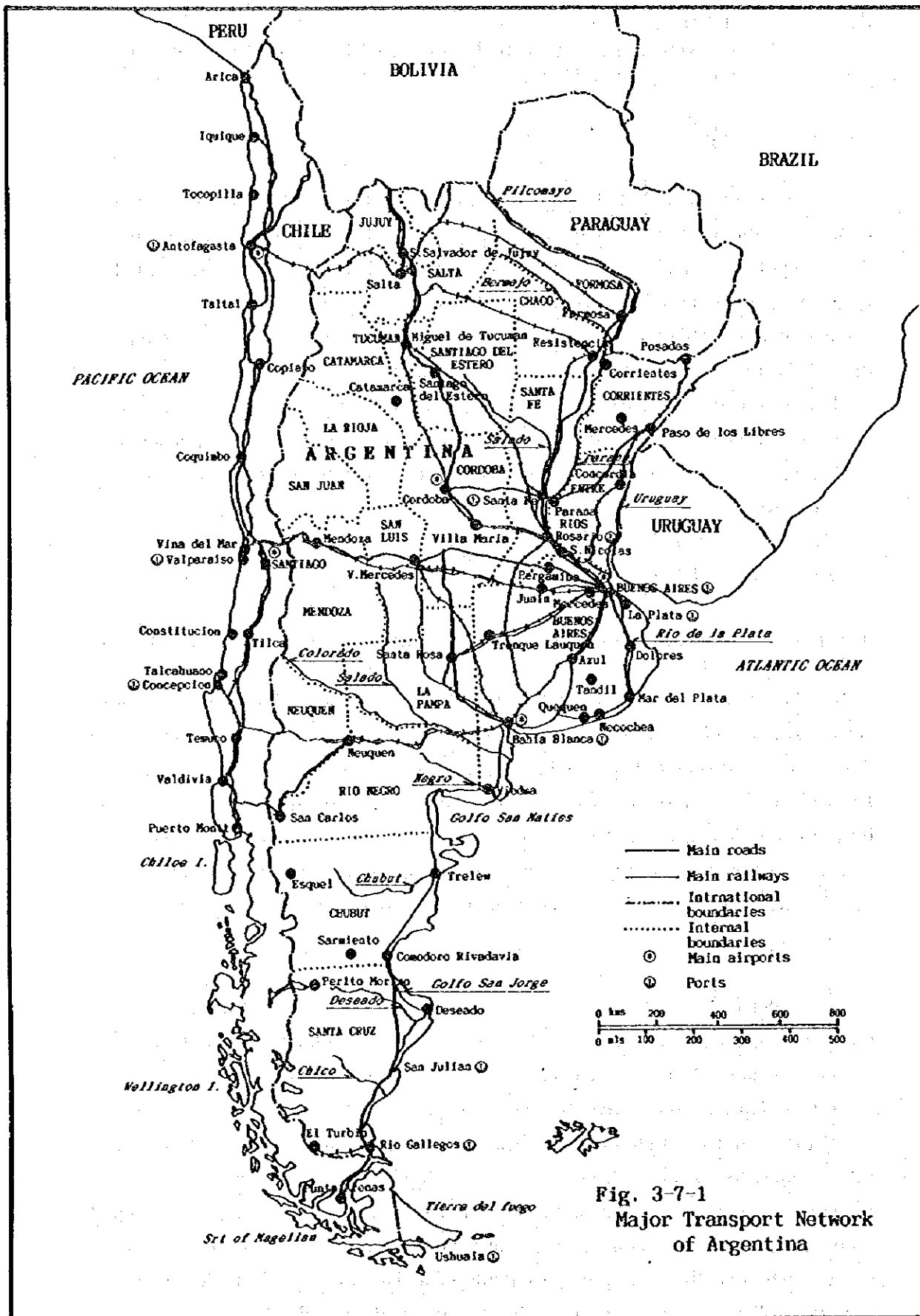


Fig. 3-7-1
Major Transport Network
of Argentina

[All data referred in this section, 3.7 are taken from "Compendio Estadístico del Sector Transporte en la Argentina, Secretaría de Transporte, 1993" unless specified otherwise.]

(1) Road transport

The highway network of Argentina registered in 1991 was total length of 212,469 km. The extension of the national road network decreased between 1960 and 1980 by the transfer to the provincial jurisdiction. In 1992, the distance of national highway network was reached to approximately 37,743 km. The rest 174,726 km are under the provincial governments.

The 75 % of the national roads network were paved in the length of 28,309 km, while the remaining 9,434 km were unpaved or gravel roads. The 18% (31,450km) of provincial road were paved. The total length of paved national and provincial road reaches 59,760 km, thus 28 % of the total roads network in the country are paved.

(2) Railway transport

In 1992 there are 35,753 km length of service line. In 1985 an electrification of 88 km distance implemented. Since then the electrification program have gradually progressed and reached to 367 km in 1992.

The total stock of diesel electric locomotives belonged to Ferrocarriles Argentinas (FA) in 1992 were of 818 units, including those units granted in concession to the private companies. Out of the total electric stock of 818 units, 63.3% is out of service. The diesel cars and trailers are only used by Urquiza and Belgrano Lines, out of a total stock of 53 units in 1992, 28 units are out of service. The total stock of wagons and cargo wagons are of 36,299 units, 31.7 % of them are out of service.

(3) Air transport

There are 117 airports in 23 provinces of Argentina. The Ezeiza airport is the international gateway airport. The Aeroparque J. Newbery is the largest domestic airport and also provides the international services to and from Uruguay.

The operation of major 12 airports (Ezeiza International, Cordoba, Salta, Aeroparque J. Newbery, Mendoza, Ushuaia, Mar Del Plata, Bariloche, Comodoro Rivasavia, Rio Gallegos, Rosario and Iguazu) is handled by the federal government in the view of strategic importance, regional international air services to neighboring countries (Chile, Brazil, Uruguay and Bolivia) and heavy traffic demands.

For the national defense purpose the air force will maintain the control of the air traffic routes and navigational control to all the airports.

(4) Maritime transport

Argentina has a 4,000 km long maritime coast and two large important navigable rivers, the Parana and the Uruguay, running through important industrial and agricultural production areas before joining the La Plata river.

The fleet of derrick barges of the Argentine shipping companies is 318 units. Most of the Argentine barges are of the "shed" type, thus corresponding to 53.6% of the total TPB. The fleet of barges of the "tank" type is 58 units, corresponding to 16.7% of the TPB of the national barge stock. The fleet of derrick tugs is 47 units, from which 34 are in trunk services and the remaining 13 are used for auxiliary services.

Out of six major companies for port tug services in the country (the power of the tugs stock is estimated about 78,000 HP), five companies operate in the port of Buenos Aires. In the Bahia Blanca and La Plata ports, only one company operates for rendering tug service. Despite the fact that this activity is completely deregulated, the tug service in these ports depicts monopolistic features.

(5) Ports and harbors and navigation channels

There are 64 public ports (11.6 million m² of docks and 130 mooring posts) and 22 privately-owned terminals (approx. 4,500 m quay wall operated for grain, by-products and oil exports). 59 comparatively small scale public ports are transferred or in the process of being transferred to the provincial governments' control. There are five strategically important ports (Buenos Aires, Bahia Blanca, Quequen, Rosario, Santa Fe), each of which forms the independent authority respectively. The main import ports are Buenos Aires by the general cargoes and containers, San Nicolas and Villa Constitution by the reception of minerals. The major export ports are Rosario-San Lorenzo, Bahia Blanca and Quequen by the grain and its sub-products and oil, and Buenos Aires by general cargo.

From the view points of their locations, Argentine public ports may be classified into; 54 fluvial public ports locating along the Parana and La Plata rivers (from Iguazu down to La Plata) and 10-maritime public ports locating along the Atlantic coast (from Mar Del Plata down to Ushuaia).

Buenos Aires Port functions as the largest general cargo and container port in Argentina. The access channel of north has been maintained at the depth of 28 ft and

south channel at 26 ft. There are 6 anchorage basins between the main Parana channel and entrance of access channel. The Buenos Aires port have 6 terminals with 20 to 30-ft draft of berthing facilities.

La Plata river provides important access channels to a number of river ports located along the Parana functioning as the major grain export shipment. Owing to the heavy sedimentation carried by the Parana, the La Plata loses its depth by degrees if no maintenance dredging has been carried out.

It will be enormous cost of dredging and heavy financial burden to maintain the channel depth deep enough to accommodate the larger bulk carriers to meet the sea transport demands, which is the present tendency by introducing specialized and larger ships. The maximum draft for ships able to enter to Buenos Aires is 32 ft (9.8 m) and 28 ft (8.5m) navigable on the Mitre Channel. This means that fully loaded large-size ships of more than 10 .0 m draft are not allowed to enter the Buenos Aires port. The Parana river has a large depth in certain places, but the river is also restricted the maximum draught of 28 ft (8.5m) and the channel has been maintained for oceangoing ships navigable up to Rosario and San Lorenzo. It is also reported that there are many bends along the Parana de Las Palmas, which is not only endanger the safety of navigation of many ships but also impose restriction on their length and beam.

3.7.1.2 Traffic volume of each subsector

(1) Road

The 150 companies provide 2,621 units of regular line service. The annual distance traveled by the interurban bus-lot reached 389 mil km, the distance traveled by each unit were 148,000 km annually. The lot of provincial jurisdiction lines reached nearly 7,000 vehicles. In Metropolitan Region of Buenos Aires (M.R.B.A.) 118 companies for passenger urban transport operate 9,877 vehicles. The annual distance traveled by M.R.B.A. for passenger transport is 838 mil km in 1992, increasing the average distance per vehicle to 84,800 km per year.

According to the statistic data by CEPAL to estimate the volume of automotive cargo transportation, it can be estimated that average 92.5 % of goods like agricultural, agroindustrial, mineral and construction materials, have been carried by the automotive means, i.e. about 165 million tons out of 179.1 mil tons in total in 1988 are transported by automobiles, while the remaining 14 mil. tons or 7.5 % of total traffic volume have been transported by railways. In tons-km basis, 39% of the total traffic, or 64.75 mil tons-km, were carried by trucks.

(2) Railway

a. Passengers service

The 6 railway lines that operate suburban services (Roca, San Martin, Mitre, Sarmiento, Urquiza and Belgrano) had transported more than 209 million passenger-trips in 1992, which was about 60 % of total passenger-trips transported in 1987. The line-wise share of traffic volume, passenger-trip for the metropolitan area in 1992, were as follows;

- Sarmiento line has transported 28.2 % of the total volume of passenger-trips;
- Roca line contributed with 26.5%;
- Mitre line with 16.7% ; and
- Remaining 28.6% has been divided among the San Martin, Belgrano and Urquiza lines.

b. Cargo transport service

The annual cargo volume transported by railways had been on an average of 14.4 million tons and stable between 1986 and 1990. Between 1991 and 1992, the cargo volume was reduced to half of the volume of 1990. The cargo traffic of the Sarmiento line had been fallen from 2 million tons in 1982 to only 88,000 tons in 1992. Between 1982 and 1986, San Martin and Belgrano Railways contributed about 50 % of the total cargo transported by the railroads system, which decreased to 40 % during 1987 and 1992.

The cargo traffic between 1982 and 1992 measured in terms of tons-km, depicts its maximum value in 1983 of 16,630 million tons-km reduced to the volume of 3,704 million tons-km in 1992, that is equivalent to less than 28 % of the traffic volume in 1983. The main cargoes are stones, cement, wheat and by-products, and soybean.

(3) Air transport

According to the "Estadísticas Transporte Aéreo", the total number of domestic flight in 1993 by all the airlines were 80,316 trips, about 2.7 % more than that in 1992. Number of passengers - distance of domestic flight were 3,156.69 passenger million km, about 2.3 % more than that in 1992. The volume of cargo were 26,370 tons by the international flights which decreased 26.8% from 1992 and 30,857 tons by domestic flights which increased about 24.2 % from 1992. The foreign air companies carried 2,197,047 passengers and 66,045 tons of cargoes in 1992, and 2,256,097 of passengers and 69,082 tons of cargoes in 1993. The air cargo volume of textiles from Asian countries like Malaysia, Korea and Taiwan has increased gradually. The main import air

cargoes were electric products, computer equipment, mechanical parts, medicine, oil drilling equipment coming from USA.

(4) Maritime transport

From its total 133 vessels composing the Argentine merchant fleet, 49 are ocean-going vessels and stand for 52 % of the total gross tons of vessels (TPB). The remaining 84 ships are used for river and coastal shipping and represent 48 % of the national fleet TPB. The vessels registered under the Argentine flag have transported 8.6 % of the total volume exported. In 1991 38.84 million tons have been exported, whereas the import volume had grown up to 9.98 million tons, which has almost doubled in two years. There is a significant growth of Argentine foreign trade with the member countries of MERCOSUR. The major products of export have been grain and its sub-products and of import were the metallurgical minerals.

The Argentine merchant fleet as a whole has the storage capacity for the solid bulk exceeding 1.5 million cubic meters and for the liquid cargo of 1.2 million cubic meters. The capacity of container transport of the national fleet is slightly over 11,000 TEU.

(5) Ports and harbors and navigation channels

a. Grain and its products movement

Grains have historically been one of the most important products of the Argentine exports. The share of grain shipments for exports through private facilities has constantly grown during the last three years. In 1992, 46.8% of the volumes of grain exported was shipped through the ports ran by the private sector.

There were grain elevators having a capacity to store 1.67 million tons. Part of said facilities previously owned by the National Grain Board have been granted in concession to the private sector for their operation. In 1993 a new grain and by-products stock and loading facilities were constructed and the capacity of the existing grain storage, reception and loading facilities were expanded to 2.9 mil tons.

The largest volume of grain export are handled at ports complex located between the Rosario port (handling 1.006 mil tons in 1993) and San Lorenzo (0.984 mil tons in 1993). The grain handling volume through the Rosario areas had been reduced gradually from 1989 since many private exporters and collectors of grain had constructed their own elevators and storage silos along the Parana out of existing port area and exported cargo directly not through the port. About 60-70 % of the total national export volume of grain

had been handled through loading facilities of these areas. The remaining volumes of grain export are handled at Atlantic ports such as Bahia Blanca (13.64 mil. tons in 1993) and Quequen (2.76 mil. tons in 1993).

There are two types of ships using the rivers to transport grain, one is shuttle type of small size ship less than 30,000 dwt and other is large panamax size ship around 60,000 dwt. The shuttle ships carry with the full load of grain up to the anchorage area at Recalada, mouth of the river in front of the Montevideo (Uruguay) where the grain are unloaded to the mother ship (larger panamax size ship), this process of loading/unloading grains is called the top-off operation.

The other case is that grain is loaded directly to the large ship with about 40-50 % of the full capacity at the ports of upstream, then the ship stop over at Bahia Blanca or Quequen to reload grain till full capacity. The loading facilities located along the Paraná River (San Martín -San Lorenzo) contributed in 1992 with 83.8% of the shipments of solid by-products sent for exports.

In addition to the normal shipment operation, the derrick navigation system are operated through the Parana river. The major cargoes transported by the derrick navigation system is basically of soybean and minerals. Soybean originated and produced in Paraguay is transported by barges to the ports of Rosario-San Lorenzo area, to Escobar (Argentina) and to Nueva Palmira (Uruguay). The iron and manganese minerals, both originated from Brazil are also transported by this means of transport in order to reach their destinations in San Nicolas (Argentina) and Nueva Palmira (Uruguay) respectively.

At present about 80 % of inland grain transport are carried by trucks mainly toward the grain loading ports like Rosario, San Nicolas, San Martín along the Parana river and 20 % are by rail mainly toward the Atlantic sea ports like Bahia Blanca and Quequen.

b. Containers movement

The movement of containers through the ports of Argentina has gradually increased from 24,000 TEUs in 1978 to 341,992 TEUs corresponding to 4.018 million tons in 1992. The growth of containers has been more than 10 times during this period. There has been a constant increase in the number of containers import of 51,217 and export of 71,438 in 1980, which have been increased to 174,416 and 167,576 respectively in 1992, which have increased at 34.2% from 254,745 TEUs of 1991. More than 98% of containers are handled at Buenos Aires.

3.7.1.3 Process and impacts of privatization of each subsector

From 1991 the government have proceeded and encouraged the privatization and deregulation programs in the each mode of transport operation. Since implementation of privatization of transport service operation in 1991 the impacts of the following aspects are reported;

- 1) The transport, storage and communication sectors generated about 5.2 % of the Gross Domestic Product (GDP) with market prices of 1992, equivalent to a 11,718.5 million pesos excluding the value of the private cars, tour charters, passenger terminal services and air transport services.
- 2) The financial burden of the government had been relieved US\$1,135 million in 1992 after the decentralization, deregulation and privatization of transport services.

(1) National road

During last two years the maintenance and improvement of the main national road have been granted to the private sector by giving the concession of toll system. Up to now, about 9,932 km (35 %) of the paved national highway are maintained in this system. They are responsible of maintenance of such highways by collecting toll.

When the operation of national highways were privatized the traffic forecast through the highways were estimated at 2 to 3 % of growth rate per year, however the actual growth had been around 25 % for 2 years of 1991-1992 since they took over the operation on the contract basis.

(2) Railway transport

In 1857 the national railway was established and started operation for cargo and passenger services on competitive ground by French and England companies. The national railway lines had been developed to make networks centralizing Buenos Aires. In 1948 the government nationalized railway operation and management and called National Railway of Argentina (F.A.). In 1990 the following aspects in F.A were observed:

- The quality of service, moral standard for service and safety manner were deteriorated;
- The infrastructures and facilities of stations, rails, wagons, communication systems had become inferior conditions; and
- No investment for improvement of infrastructures and maintenance, and no governmental budget for railway operation.

Under such circumstances the government decided to privatize cargo transport of F.A. in March 1991. F.A. sold provinces for railway operation by provincialization and also sold their property of buildings and lands to private companies. F.A. was first divided into two companies, F.A. for nation-wide railway operation and FEMESA (Ferrocarriles Metropolitanos Sociedad Anonima) for passenger services in Buenos Aires metropolitan area. F.A. had been further privatized into 5 private companies for cargo transportation and 3 provincial companies. There will be 4 lines to be privatized from 1995.

Some of the passenger transport railway lines are still under the control of the provincial government. At present, the government have granted 12,807 km distance in concession to the private sector. Out of the total distance of 34,059 km, 891.5 km of FEMESA line were granted to the private sector.

The impacts by the privatization is reported from the operation companies as follows:

- The cheaper freight about 12 to 30 % of major bulk cargo such as wheat, coal and stone by railway are provided than that of truck transport due to heavy competition;
- Transport volume of bulk cargo have increased;
- The railway companies are allowed to develop new markets to transport trucks on wagon with new technology and to promote new customers of wheat collectors at production area by creating a confidence to the customers that their cargoes are delivered in time with required quantities at cheaper cost;
- The railway company started and planned new projects to construct and operate cargo collection terminal in the suburb of Buenos Aires city to deliver bulk cargo like cement, stones to the destinations within the city. it will ease heavy traffic congestion in the city; and
- After the privatization the tariff had been reduced around 5 to 30 % and the number of employees of the FA decreased from 120,000 in 1990 to 8,900 in 1992 and their moral standard and efficiency for the services have improved.

(3) Air transport

The responsibility of operation and management of airports located in the provinces are transferred to the provincial government from the federal control in 1991-92. The terminal building operation of the Ezeiza and Aeroparque airports are carried out by the joint operation of three private companies (Intercargo for ramp and cargo handling

service, Edcadasa for deposit hanger and warehouse operation, Interbaires for duty free shop) and government sector.

There are 10 airline companies operating. The largest airline company is the Aerolineas Argentinas operating in the international lines on the private business basis which were privatized by transferring their shares to the private companies and government hold 5 % of the company's share. The company established Austral airline by holding 99 % of its shares, operating mainly for domestic service. The Lapa (Lineas Aereas Privadas Argentinas), a private company operates for domestic service. The other airlines owned and operated for the regional areas by the provincial government except Sudamericana de Aviacion, El Pinguino, Valls Lineas Aereas y Servicios and CATA are planned to transfer into the private sector in near future.

The government decided to invite the private sector participation for the operation and management of all the airports. At present the committee consisting of the representatives of Ministry of Economy, Ministry of Defense, Air Force, and Ministry of Tourism is established by the decree 770/94 to study the scope and extent of the private sector participation, schedule of transfer of operation from the government sectors, the manner of selection of private participants and selection of the concerned airports for inviting the private participants for the operation. The committee will submit the conclusion and recommendation by April/May, 1995.

(4) Maritime transport

During the second half of year 1991, the government introduced the deregulation decrees related to temporary flagging-out from Argentine Shipping Registry and cargo reservation. The ELMA (Emprress Lineas Maritimas de Estado) is the only government-owned shipping company and still receiving financial assistance. Within the share corresponding to the Argentine Lines, ELMA carried about 60% of the general and reefer cargoes, while the 40% were transported by Argentine Private Carriers, for which law establishes a predominant participation in the carriage of bulk cargoes. Since cargo reservation law was declared without effect, foreign ship owners and third flag vessels had a free participation in cargo import to Argentine.

It is worth pointing out that cargo carriage participation of ELMA within the Argentine flag were reduced to 43.55% in 1992 while the share of private companies reached to 56.45% during the said year. In 1987, the first of the two full-container vessels built in the country were incorporated to ELMA's services " m/y ISLA GRAN

MALVINA." The second one (m/v "ISLA SOLEDAD") started trading for ELMA in 1989.

a. Reduction of freight cost

In the case of the Argentine registered ships they are not required for tug boat services to the ports if the captain on board is experienced through the channel. The freight charge of shipping by the deregulation had also been reduced about 30 to 40 % because of the reduction of tug boat service charge and correspondingly the freight charge of grain transportation also were reduced about 20 to 30 %, which were caused by the non-application of Argentina regulation of insurance policy and introduction of competitive open market of tug boats and pilot services.

b. Deregulation for import of ships

After the deregulation the government had allowed to import some type of ships from abroad like fishery boats, general cargo ships, container ships and possible chartered ships of Argentine owners to cooperate with Argentine fleets. The shipyard at La Plata and others owned and operated by the government were transferred their operation and management responsibility to the provincial government. The government allow such shipyards to develop or convert into a new business market like renovating into a free trade zone by private investment.

(5) Ports and harbors and channels

a. Privatization of port and harbor operation

The Argentine ports system is in the middle of a transformation process from state-owned ports to the provinces. The 59 public ports are transferred or being transferred to the provincial government control and 5 strategically important ports (i.e., Buenos Aires, Bahia Blanca, Quequen, Rosario, Santa Fe) forms the independent authority, which would be responsible of the management and development of each of these ports. These authorities are organized by representatives of private and public sectors interested in the port activities including the province and municipality.

The sea transportation sector has also been deregulated by Decree no. 817/92, dated 28 May 1992, Law No. 24,093 sanctioned 3 June 1992, and Decree No. 769/93 dated 19 April 1993 which includes the following measures:

- The dissolution of the General Port Administration and the decentralization of port administration;
- The establishment of legal regime for private ports;
- The deregulation of port operation and the dissolution of previous labor agreements;

- The privatization of cargo handling and storage operations within a competitive framework through concessions;
- The deregulation of pilotage and towage; and
- The deregulation of sea and river transport.

b. Impacts to port operation service

The impacts to port operation is reported as follows:

- The cargo handling cost is reduced, such as the container handling on the wharf apron, previously from around US\$600/container to US\$200 which will be further reduced by the private terminal operation to around US\$150. The port dues to Buenos Aires in 1994 got cheaper around 40 % than that in 1989. The freight charge of wheat got 60% cheaper from US\$9/ton in 1989 to US\$3.5/ton in 1992. The transport cost of fishery products got around 78% cheaper from US\$120/ton in 1989 to US\$29/ton in 1994;
- The pilot services and tug boat service charges became the reasonable cost and time because the government introduced free competitive market to users of pilot and tug boats for sailing the Parana - La Plata rivers; and
- The custom clearance procedure are simplified and faster at the port since they are allowed to introduce the computer network system connecting customer office and shipping agents, cargo consignees, all the paper works can be disposed by the computer network and no need to visit number of desks in the customer's office for sanctions.

c. Impacts to tug boat service

The tug boat service and pilot services for entering and leaving the Argentine ports were provided before the deregulation law by the specific companies nominated by the government, but after the deregulation private companies are allowed to provide the port services of towage, pilotage, dredging of the access channel and navigation aids under the contract basis according to the new deregulation law.

d. Privatization of channel dredging

The maintenance dredging of the main channel of the Parana-La Plata rivers through the Parana de Las Palmas river is the responsibility of the federal government, while the maintenance dredging of the access channel to the port is responsibility of each port.

The Direccion Nacional de Construcciones Portuarias y Vias Navegables (CPVN) under the control of the Ministry of Economy and Public Works and Service is responsible for construction of port facilities and channels dredging, and CPVN had been undertaken in the last 20 years. But with its losing dredging capacity the actual demands

for dredging service required for navigational safety have not been met. The CPVN formulates an annual dredging plan for each year to maintain the required channel depth, but the actual maintenance dredging had not been carried out satisfactorily mainly for the following reasons

- Shortage of crew, which makes it impossible for the dredgers to operate
- Mechanical defects and related failures of dredging equipment

Under such conditions, the government plans to conduct the maintenance dredging of Parana-La Plata rivers and improvement of navigation aids facilities by the private investment as parts of the privatization program and arranges that the dredging cost will be compensated by the toll to be paid by the ships of more than 15 ft draft. The toll charge shall be higher for ships having 15 to 32 ft draft. Ships of more than 32 ft draft that can be navigable or with a partial load, shall pay for the "Service" they receive from the navigable channel. All the ships shall pay the toll according to their TRN (Tonelaje de Registra Neto, or Net Register Ton).

It is reported that the impacts of this dredging arrangement will be US\$1.20 per ton. It is estimated that when the dredging at Rosario port will be made to 32 ft draft, those ships that are now leaving ports with only 26,000 tons will be able to carry 34,000 tons. It is also expected that the total transportation cost by pilot service and the sailing time will be reduced by safety navigation, then the port due as a toll through the channel will be collected at reasonable level by private company as concession to the dredging works.

3.7.1.4 Development plan of each subsector

(1) Road

The government, Vialidad Nacional (VN), plans to develop and rehabilitate the damaged and unpaved national highways by providing the budgets of 1,555 million peso in total between 1994 to 1997 (This amount will become 1,862 million Peso by adding the cost of 1993) in which the government will provide 1,055 million Peso and remaining 500 mil Peso by the international financial agencies, since the cargo volume transported by trucks had increased substantially by taking cargo from the railway which carried 24 million tons in 1983 reduced to 14.6 million tons in 1989. The private sectors investment of 616 mil Peso are expected for road rehabilitation and development works by giving concession between 1994 to 1997. The total investment during the said period will become 2,171 mil Peso.

As a result the trucks had increased their carrying volume and had been got bigger and heavier loaded which caused the damages in the national highways and drew out strong demands for widening and improvement.

The VN is preparing the national road development plan to establish the programs to be undertaken by the central government, provincial government, private sector investment, and joint operation of public and private sectors.

The government will support the road and bridge development projects in relation to transportation infrastructure program by the establishment of MERCOSUR such as the bridge project between Colonia and Buenos Aires, and construction of connection road between Rosario and Parana of which the Secretariat of Public Works and Services has already been conducting the feasibility study. The Vialidad Nacional prepared the Andes Crossing Routes Development Plan. This plan describes the order of priority of development routes, their budgets, schedules of implementation and the regional development impacts by crossing the Andes to Chile with number of alternative routes starting from Buenos Aires, Jujuy and Bahia Blanca.

(2) Railway

The government plans to promote further privatization program. The railway lines around the suburbs of Buenos Aires and northern provinces will be invited for bids from the private companies for cargo transport operation. The Subsecretariat will assist the development projects initiated by the private companies such as crossing to Chile from Zapala, national inter-railway development projects to be required by the establishment of MERCOSUR common regional market. The National Railway is preparing a comprehensive national transport strategic study aiming to analyze alternative transport mode which will identify the policies, scope and extend of the government or private sectors' investment, and to establish a data bank system collecting all the transportation data and connecting to all the concerned agencies, companies and users by the computer cable network system.

(3) Air transport

The government decided to introduce the private sector participation for the operation and management of all the airports. Their privatization program will be submitted by April, 1995.

The terminal buildings of the Ezeiza airport were constructed in 1950s. It is planned to renovate or reconstruct a new terminal building by the private sector

investment for modernization as an international gate-port and promotion of tourism. The 5 years airport development program now considered to prepare and the recommendation of the privatization program will be included in the program.

(4) Ports and harbors and channels

a. Establishment of Social Administration of Port (SAP)

The government will reorganize the previous organization of AGP and establish a new organization (tentatively called Social Administration of Port) to be responsible of maintaining the clearance of channel and basin draft, coordination of public and private roles in the port activities, planning the future development plans of each port, coordinating with municipality and regional government agencies for planning the access of roads and railway connection to the ports and promotion of privatization program of terminal operation in selected ports.

b. Development policy

It is reported that the government, Secretary of Transport, set the policy to utilize the available facilities, manpower, equipment with the maximum capacity as the first stage of development then to develop the port infrastructures by the private investment including expansion of breakwater at Quequen port, container terminal development at Bahia Blanca and Rosario ports and renovation of old facilities at Buenos Aires port.

The government will establish an advisory group under the Secretary of Transport to study the issues asked by the Secretary and provide the recommendations for necessary actions to be taken.

c. Container terminals development at Buenos Aires and other major ports

The concession of the port terminals in Puerto Nuevo, at city of Buenos Aires, is considered as being public interest due to the importance of port activities. This will bring a generalized reduction in the transportation costs of import and export cargoes by optimizing the operational efficiency, fostering the competition, preventing monopolistic practices, improving the quality of the services and reducing port costs.

The government plans to develop the Dock Sur area on the south of Buenos Aires under the separate authority to be established jointly with the province, municipality of Buenos Aires government representatives. The government gave the permission to the private company owned the area to develop the container terminal and the inland depot of the containers.

The ports of Bahia Blanca, Quequen, Rosario, Ushuaia ports and La Plata port have already received small quantities of containers. These ports have the sufficient land area for future port facilities development. They started to prepare the engineering study of container terminal development on the each port authority level for optimizing land use within the port area.

(5) Intermodal transport

The manufacturers located in Cordoba and Mendoza provinces are now using the railway for transporting raw materials and products from/to the port due to the cheaper freight cost with large quantities delivered on time. The provincial government of Cordoba assists the regional manufacturers for effective use of railway network to reduce the cost of export by combination of alternative intermodal transport means between the Cordoba and Santos in Brazil.

There are good access of railway and road networks behind the Bahia Blanca and Quequen ports. The port authorities of Bahia Blanca, Quequen and Rosario plan to utilize the advantages of the deeper depth of the access channel and the intermodal transport of road and railway networks to the hinterland of ports for delivering cargo faster and efficiently from door to door basis.

All the ships transporting goods through the Parana river for international and domestic trade adjust their draft at the Rosario port according to the available depth of the channel. Inside the Rosario port there is a special berth and storage facilities exclusively used for Bolivian international trade. The railway connecting to Belgrano and Mitre Railway company are extending for 35 km in total length to the different wharf and yard areas inside the port for transporting manganese and steel raw materials importing from Brazil through the port to Mendoza. Commodities from Bolivia are transported by these railways and trucks to the port for transshipment of goods to Argentina and abroad.

The intermodal transport through these major ports will give an incentive to the private investments to the export promotion and improvement of transport infrastructures.

3.7.2 Issues

Since introduction of privatization, deregulation and decentralization program in transport sector it had begun to give impacts to national and regional economic activities by providing better and efficient services to users with cheaper cost and faster operation of delivering cargoes and carrying passengers and also relieved substantial financial burden of government budget allocation. The government shall proceed the current

privatization and deregulation program and encourage the private participation for development of transport infrastructure and service operation by inviting the private sectors technical know-how, financial resources and efficiency of management system for wider public transport service.

In order to sustain the current economic growth and promote export to Asian and MERCOSUR countries in coming years, the following short and long term issues of transport sector are considered to be undertaken by the government initiative.

3.7.2.1 Short-term issues

(1) Redefinition of transport sector administration

The organization of Secretariat of Transportation consists of 3 Sub-secretariat, 5 National Directorates, 13 Directorates and of model responsibilities. In this organizational scheme, the following issues of intermodal nature are not handled in any Sub-secretariat, and the Secretary of Transport directly supervises those issues:

- Formulation of short, medium and long term transport development policies,
- Preparation of budget proposal and allocation of transport investment funds
- Intermodal coordination among various needs of transport

In order to implement the above issues effectively and efficiently, the present division of work in the Secretariat based on modal responsibilities and its organizational structure seem to be required redefinition. It is advisable to establish an independent Sub-secretariat which deals intermodal subjects including above issues. The intermodal coordination in formulation of transport policy is important particularly in the changing economy and society of present days.

Presently the government is vigorously pursuing policies of privatization and deregulation in the transport sector as a whole. The division of work between the government and the private sector has been changing from the previous one. Under these circumstances, the government is requested to analyze needs of transport users and private enterprises and to create frameworks of cooperation between the government and the private sector. In accordance with economic growth and increase in volumes of trade, the inadequacy of transport infrastructure will become apparent in the coming future.

From this view point, one of the important roles of the Secretariat of Transport is to formulate medium (around 5 years) and long-term (around 10 years) visions of a future direction of transport development with its regional distribution. The private sector

will perceive the government's policy direction through medium and long-term transport plans and decide their economic and social activities.

It is also necessary for the government to make effort to acquire the needs of private sector. It is advisable to organize an advisory body to the Secretary of Transport, for example, "Transport Policy Council" consist of 20-30 representatives from private enterprises, academics, labor unions, transport operators and general transport service users. Specific topics of important transport issues(e.g., "an appropriate level of transport investment in the tight fiscal situation," or "requirements of transport infrastructures development coping with needs of economy and society in the 21st century") can be commissioned from the Secretary of Transport to the Council, and Council members meet regularly and prepare recommendations to the commissioned subjects. This sort of regular exchange of opinions between the government and private sector will be particularly valuable for the transport administration in the new and changing circumstances of the economy.

(2) Preparation of "National Transport Study"

Since the impacts to transport service by privatization and deregulation of each subsector are recognized it is considered appropriate stage to conduct "National Transport Study of Argentina" for preparing the medium and long term development strategies and programs of transport infrastructures, upgrading of transport services and improving operation and management.

The study shall include the following:

- Phased development program of each subsector for its infrastructure development considering national economic development policies and strategies construction;
- Preparation of scope for rehabilitation and maintenance of transport facilities (National and provincial roads, railways, ports facilities and airports);
- Measures to upgrade the transport services which will meet the needs of users; and
- The government initiative and coordination for sharing investment with private sector for improvement of infrastructure.

Based on such long term plan the government shall take an initiative and coordinate directions of the phased development program jointly with the private and public sectors considering the regional roles and functions of the respective transport facilities.

3.7.2.2 Medium and long-term issues

(1) Improvement of grain transport system

By 2010 the Asian countries including China will face the shortage of foods by the advance of industrialization and population growth. Argentina had already been exporting grain to Indonesia (about 450,000 tons in 1993) which has been increasing. The grain and its by-products are and will be major export commodities not only to Brazil but also to Asian countries. Presently, Asian countries import grain mainly from Canada and Australia. It is essential for Argentina to keep competitiveness of exporting grain among the major exporting countries.

The privatization and deregulation of port service have contributed to reduce the total transport cost, but the grain export will be promoted into Asian countries by improving the transport system and making competitive price in the international market.

The present arrangement of grain transport by derrick and top-off operations are costly. For example; There are 55 grain loading/unloading facilities (private and public), 43 of them are located within the Parana, La Plata and Uruguay rivers system and 12 are in sea ports. The normal loading capacities have reached in general over the 1,000 tons per hour for solid bulks and over 400 tons/hour for oils.

The navigation aid facilities along the channel from Recalada to Rosario and Santa Fe are not working properly. Sailing time takes nearly 36 hours for one way with three pilots on board which causes additional expense and time in addition to the total grain cost to the consumers. During the exporting season of grains, special priority is given to grain carriers to avoid shipping traffic congestion along the river. The whole channel of Parana - La Plata areas is not equipped with radar tracing facilities to control shipping traffic all along the river, the control is limited by VHF of ships.

In the long run the deep draft port for accommodating larger grain carriers and large receipt area of storage facilities shall be developed along the Atlantic coast and navigation aids facilities along the rivers shall be improved in order to supply the required quantity to Asian countries in time with reasonable price. In addition to the physical infrastructure development the information system connecting between Asian countries and suppliers, collectors and exporters shall be developed for smooth and faster communications.

(2) Containerization of cargo transport in Argentina

Some industrialized countries in the world are on the move of developing an international, intermodal and door-to-door container service system that will benefit the shippers with time and cost savings. It is expected that containerization of general cargo will gain more and more momentum in the future.

At present, major container terminal in the world have a water depth of -13 to 14 m (39 ft to 42 ft) for accommodating Panamax type container ships and some have a deeper water depth in anticipation of the Super Panamax class ships. Some major container terminal have a berth length of more than 1 km to realize efficient operation by making use of the scale merit. Most of these terminals have a container yard width of 300 to 500 m and some have even larger container yard width.

Container cargo in Japan has been increased at a remarkably high growth rate of 12 to 14 % per year during 1990-1992. The container cargo volume is more than 125 million tons per annum equivalent to 8,623,643 TEUs in 1991. The container traffic volume handled in Asian countries in 1991 were Japan, 8.623 Singapore; 6.354, Hong Kong; 6.162, Taiwan; 6.127, South Korea; 2.694, the Philippines; 1.463, Thailand; 1.171, and Indonesia; 1.156 (unit is million TEUs).

Since Asian countries are formed in the archipelagos and sea transportation has been an essential and practical means of communication, they have developed naturally the containerization of sea transportation from the early 1980s. Major ports in Asian countries like Singapore, Hong Kong, Taiwan, and Malaysia are located geographically at the transshipment of regional key position in the world major shipping routes and have already equipped with the container terminal to accommodate post Panamax type of container ships.

The expansion and the improvement of the present premises for container handling in the port of Buenos Aires may not be enough in the medium and long term of port operation. The full scale operation of container terminal is rather difficult there for the following reasons.

- There is no chance of arrivals of fully laden ships due to the lack of necessary draft at the access channel.
- Lack of water depth at the quay walls where container vessels can moor.
- Severe shortage of land behind the quay walls where city activities are along the waterfront area.

The present arrangement of 6 terminals operation by 5 private companies will provide some rooms for accommodating the demands, but each private company have forecast of containers at 3-5 % growth per year to estimate invest for necessary equipment and future cash flow, the present container handling facilities will be saturated shortly. Considering the physical constraints of the port, it is necessary to plan the development of a new container terminal supplementary to the Buenos Aires in the long term in the other ports along the Atlantic coast where deep water depth and shorter access to the ocean are available.

While Buenos Aires will be able to handle containers nearly 1.0 million TEUs under the present arrangement, meantime it is expected the decentralization of container cargo from Buenos Aires will be required and the consignees will desire to deliver / collect their containers as close as possible to minimize the inland transport cost. The ports like La Plata, Bahia Blanca, Ushuaia and Quequen ports with deep draught on the coast of Atlantic ocean will be required to develop container terminal to cope with demands by such trends of world sea transport and promote trade with Asian countries by containers which will also give incentives to private manufacturers and promote exports of industrial products

The government shall review the current regulation of transporting containers by land transport system and update such rules to allow trucks and railways to transport containers smoothly and allow the private companies to develop necessary supporting facilities for container transport such as inland depot (dry port) and reinforce infrastructures of main routes and introducing the communication network system for tracing containers by port terminal, shipping agents, forwarding agent, collectors and delivery of containers.

(3) Trans-Andes routes development

There are number of alternative routes crossing the Andes by roads and railways which have already been used for exchanging, regional products between the provinces of Argentina and Chile. Recently there are number of serious discussions between the provincial governments of Argentina and Chile to develop the fully consolidated trade routes by improving the Trans-Andes routes.

Because Argentine government desires to encourage the mountainous regions by developing mineral resources, mining, agricultural and manufacturing products. It is considered economical and convenient to transport such products to Chile and to Pacific countries by crossing the Andes from these regions of Argentina.

The federal government shall initiate the feasibility study for selection of physically possible routes and assist private railway companies, manufactures located in the regions and provincial governments for promoting their export/ import trades with Asian countries through neighboring countries and regional economic development.

(4) Harmonization of transport systems among MERCOSUR countries

In order to function MERCOSUR as an integrated economic organization, it is necessary to flow freight and passengers freely among four member countries (and also, desirably, Chile and Bolivia). For this purpose, Parana-Paraguay waterways systems, railways, roads, ports and shipping systems, and air transport systems would be not only developed and organized as coordinated transport infrastructure networks, but also require harmonized rules and regulations of border crossing between member countries of MERCOSUR (and also Chile and Bolivia). The discussion among MERCOSUR countries on the latter issue has already started, but not yet reached to the agreement. It seems to be required to accelerate the process and reach to an agreement in short term, since MERCOSUR has already been organized.

The improvement of transport infrastructure, on the other hand, needs medium and longer term consideration. In order to realize them, it is required to prepare inventories of present conditions for various modes of transport infrastructure, assess requirements for improvement, put priorities to various options of transport infrastructure development and devise ways of financing them. The harmonized development of transport systems among MERCOSUR countries, Chile and Bolivia will realize trans-continental corridors connecting the Atlantic and the Pacific oceans, which will open up new economic opportunities for those countries and particularly be an important means of stimulating economic development of regions along those routes.

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