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Principal authors of the report, all from the T&C Global Practice, are Martha Martínez Licetti, Mariana Iootty, Tanja Goodwin, and José Signoret. The report is based on three individual background papers written by technical teams across the T&C Global Practice. The following team members led work on specific topics and sections of the report. José Signoret coordinated a team working on trade liberalization estimations, analysis of trade policy, and trade in services that included Syud Amer Ahmed, Maryla Maliszewska, Martín Molinuevo, Nadia Rocha, and Marinos Tsigas. Roberto Echandi directed the team working on investment policy and promotion, which included Valeria di Fiori, Daniela Gómez Altamirano, Gabriela Llobet, José Ramón Perea, and Erik von Uexkull. Tanja Goodwin led the team working on markets and competition policy issues that included Seidu Dauda, Soulange Gramegna, Marta Camiñas, Lucas Grosman, Diego Petrecolla, Florencia Saulino, and Lucía Villarán. The report draws on a mapping of the automotive sector prepared by an International Finance Corporation team led by Guillermo Foscarini. Specific inputs were provided by Aarre Laakso, Morgane Fouche, and Guilherme de Aguiar Falco. Administrative assistance was provided by Osongo Lenga, Cara Zappala, Flavia Dias Braga, Elena Feeney, and Geraldine García.

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The administration of President Macri in Argentina faces an economy that is poorly connected with the world economy. Argentina needs to lift and stabilize economic growth to create more jobs while reigniting productivity to bring income closer to more advanced economies (Figure I). Integration into global markets provides opportunities to unleash the country’s growth and higher productivity potential by creating conditions and incentives for markets to function better and resources to be used more efficiently.

Argentina has substantial space to integrate further into the world economy.

The economy is particularly closed to trade. Partly as a result of policies put in place by previous governments, Argentina’s trade flows have fallen by almost half over the last decade. They dropped from 42 percent of gross domestic product (GDP) in 2002 to 26 percent in 2016—slightly above the 1998 level of 23 percent. Trade in services is lower as a share of GDP than in all neighboring countries. Argentina’s average import tariff was 13.6 percent in 2015 (Figure II), similar to Brazil (13.5 percent) but well above the level of comparator countries. Nontariff measures (NTMs) further restrict trade flows with effects similar to having tariffs as high as 34 percent. As of October 2016, for around 1,600 tariff lines import licenses are still not subject to automatic approval. Countries around the world participate, on average, in about 14 free trade agreements each; Argentina is a signatory to only one.

Foreign direct investment in Argentina is low. The value of foreign direct investment (FDI) inflows into Argentina amounted, on average, to only 2 percent of GDP between 2000 and 2015, below the regional average and the average for upper-middle-income countries (3.6 and 2.4 percent of GDP, respectively). Consistent with low FDI inflows, stock of FDI is also low, and well below the level of comparator countries (Figure III). Weak FDI inflows and stock exacerbate Argentina’s already low rate of overall investment, which is critical for closing its infrastructure gap. Gross capital formation in Argentina was 16 percent of GDP in 2016, below the Latin America and the Caribbean (LAC) regional average (19 percent) in the same year and significantly below the average among upper-middle-income countries (32.3 percent) in 2015.

The lack of integration with global markets is mirrored by a lack of competition in domestic
markets. New data collected jointly by the Organization for Economic Co-operation and Development (OECD) and the World Bank Group (WBG) suggests that product market regulation (PMR) is not conducive to competition in key sectors of the economy, including transport, energy, and retail. In fact, according to 2016 data, product market regulation is 30 percent more restrictive in Argentina than the average across 19 LAC countries and highest among relevant comparator countries (Figure IV).

Lack of integration could be associated with the significant price differentials observed among essential food products, sold in relatively concentrated domestic markets. Overall, households in Argentina spend 28 percent of their overall consumption on food products, more than the 14 percent in comparator countries. International price comparisons conducted for this report using panel data for the 2010-2015 period suggest that prices for a series of food products

Figure I. GDP growth accounting in Argentina, 1992-2016

Source: Data from Conference Board database.

Figure II. Average import tariff in Argentina vs. comparator countries

Source: Data from World Trade Organization.
that make up 85 percent of the food consumption basket were, on average, almost 50 percent higher in Argentina when compared to international peers and 35 percent higher than countries in the Pacific Alliance. Households in Buenos Aires paid, on average, 13 percent more for basic food products than their peers in capital cities worldwide. These results take into account different income levels, import tariffs, and transport costs. Prices for chicken, dairy products, wheat bread, and white rice are significantly higher. This is generally consistent with information on the relatively high degree of concentration in these product markets; however, the level of concentration is only one indicator of the intensity of competition, and further analysis would need to be undertaken at specific stages of the supply chain, as other factors also determine effective competition.

Figure III. Inward FDI stock over GDP in Argentina vs. comparator countries, 2015 (% of GDP)

Figure IV. PMR indicator: Argentina vs. comparator countries, 2013/2016
(Index scale 0 to 6 from least to most restrictive)

Source: Data from OECD database (https://data.oecd.org/fdi/fdi-stocks.htm)
Note: Inward FDI stock is defined as the value of foreign investors’ equity in and net loans to enterprises resident in the reporting economy.

Source: Data from WBG OECD PMR database, 2013, 2016.
The current administration is tackling these challenges head-on, with notable early progress.

Complementing macroeconomic and fiscal reforms, the government lifted foreign exchange controls and rolled out reforms to stimulate private investment. The administration approved a new public-private partnership framework and gradual reductions in energy and transport subsidies. Trade-related reforms have included the reduction of export taxes and the establishment of a new import administration system to replace the mostly discretionary licensing regime in place until 2015, Declaración Jurada Anticipada de Importación (DJAI), with a simpler monitoring system, Sistema Integral de Monitoreo de Importaciones (SIMI). Even just this import licensing reform is expected to boost GDP by at least 0.14 percent over baseline projections by 2020.

Argentina is displaying a renewed interest in engaging in trade negotiations and taking a more active role in the international policy arena. Argentina has accelerated negotiations for new Free Trade Agreements (FTAs) with the European Union (EU) and countries of the Pacific Alliance, and has bid successfully for the G20 Presidency and the hosting of the World Trade Organization (WTO) 11th Ministerial Conference.

The government has taken steps to restructure and strengthen its institutions for investment promotion and competition policy. The renewed investment promotion agency (IPA), Agencia Argentina de Inversiones y Comercio Internacional (AAICI), has already facilitated investment in at least 195 cases. This has contributed to the announcement of 455 new investment projects in the first 12 months of this administration, totaling US$ 55 billion in new investment. This is more than double the annual amount between 2012 and 2015. The new head and staff at the competition authority, Comisión Nacional de Defensa de la Competencia (CNDC), have already reduced the time required for merger reviews by almost 50 percent, sanctioned one price-fixing cartel, presented a new competition bill to Congress, and promoted changes to strengthen competition in the card payment market.

Argentina has much to gain from continuing to pursue its strategy of opening markets and integrating into the world economy by boosting trade, competition, and investment.

Partial and general equilibrium analyses suggest that trade, competition, and investment policy reforms will boost growth and productivity. This report presents a set of robust empirical analyses to assess the potential impacts from trade, competition, and investment policy reforms.

Argentina’s strategy of pursuing unilateral trade policy reforms and regional trade integration will yield permanent gains, if implemented successfully. Using a Computable General Equilibrium (CGE) model tailored specifically to Argentina, this report assesses the effects of several trade reform measures. Simulations of the potential gains from unilateral trade policy reform suggest that:

- Removing all export taxes would expand GDP by at least 1 percent over baseline projections by 2020. The potential fiscal implications of this measure need to be taken into consideration, however.
- Expanding the import licensing reform (initiated at the end of 2015) would boost the GDP gains already achieved through the removal of the DJAI to at least 0.22 percent over baseline projections by 2020.

Simulations of the potential gains from successful trade negotiations suggest that:

- A more integrated Mercosur—with lower external tariffs and streamlined internal NTMs—would expand Argentina’s economy by at least 1 percent over baseline projections by 2030.
- A Mercosur–EU FTA would boost Argentinian exports to the EU by 80 percent over baseline projections by 2030.
The CGE analysis conducts a comparison between economic outcomes (including GDP, exports, imports, output, and others) that would accrue from policy reforms and the baseline projection of the economy with current policies in place through the medium and long term (2020 and 2030). Figure V illustrates how to interpret the CGE results. The estimated impact of the reform in the long run, for example, is represented by the vertical distance ($\alpha$) in the figure between a baseline projection of the economy through 2030 without reform and the alternate scenario reflecting the policy changes. Certain effects, such as the potential effect on GDP, can accumulate over time (represented by the area between the curves). Overall, the simulated effects of potential trade opening scenarios using CGE models may underestimate the actual impact. The results for Argentina are of similar dimensions as those for CGE simulations of trade reforms for other countries, such as Brazil.

Trade liberalization reforms would involve the reallocation of labor across sectors; employment would shrink in certain sectors and would need to be absorbed by expanding activities. Simulations drawn from the CGE model suggest that certain sectors would be more susceptible to losing jobs in response to trade reforms. Overall, for most of the trade integration scenarios modeled, sugar, metal products, footwear, auto parts, and other manufacturing are sectors that are expected to be more susceptible to experiencing large or moderate losses in formal employment. On the other hand, some sectors emerge as formal employment generators, regardless the trade integration scenario under consideration. These include services and the other agriculture and meats sectors.

Argentina can gain even more from “deeper” trade agreements and complementary regulatory reforms that foster domestic competition. Partial equilibrium analysis suggests that “deep provisions” such as commitments with regard to competition and investment in regional

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**Economic impact of trade reforms: a CGE analysis**

The CGE analysis conducts a comparison between economic outcomes (including GDP, exports, imports, output, and others) that would accrue from policy reforms and the baseline projection of the economy with current policies in place through the medium and long term (2020 and 2030). Figure V illustrates how to interpret the CGE results. The estimated impact of the reform in the long run, for example, is represented by the vertical distance ($\alpha$) in the figure between a baseline projection of the economy through 2030 without reform and the alternate scenario reflecting the policy changes. Certain effects, such as the potential effect on GDP, can accumulate over time (represented by the area between the curves). Overall, the simulated effects of potential trade opening scenarios using CGE models may underestimate the actual impact. The results for Argentina are of similar dimensions as those for CGE simulations of trade reforms for other countries, such as Brazil.

**Figure V. Interpreting CGE results**

Source: Author’s own elaboration.
Trade agreements, as well as reforms that tackle anticompetitive business practices, remove entry barriers, and modify product market regulations that restrict competition would translate into tangible gains.\textsuperscript{22}

- With a Mercosur agreement as deep—in terms of the number of enforceable provisions—as the agreement between the EU, Colombia, and Peru, Argentina would export between 1 and 9 percent more parts and components to Mercosur members.
- Increasing competition in the manufacturing sector would increase the annual growth rate of labor productivity by 7 percent, on average, with all else being equal.
- Reducing the regulatory restrictiveness of competition in Argentinian services sectors (such as energy, transport, professional services, and telecommunications) would translate into an additional 0.1 percent to 0.6 percent growth in annual GDP, with all else being equal.

The new global trade landscape opens up three specific opportunities for Argentina: connecting to certain regional and global value chains through foreign direct investment, trading services, and expanding e-commerce.

Trade is not growing as quickly as before, and its nature has been evolving rapidly, leading to the emergence of new opportunities. Setting global economic integration as a priority may seem to be an unusual choice in light of protectionist threats worldwide and slower growth in total trade volumes, but the changing nature of trade over the past decade opens up specific opportunities for Argentina. As a result of technological changes, the content and mode of trade have shifted. First, trade in intermediate goods has grown faster than trade in final goods, and FDI has played a crucial role in such global value chains (GVCs).\textsuperscript{23} Second, services can be traded by virtually connecting provider and consumer, or by one or the other moving across borders. Today, trade in services makes up over 20 percent of global trade.\textsuperscript{24} Third, information communications technology (ICT) tools can facilitate cross-border e-commerce and the participation of smaller and new entrants in global markets by boosting their ability to reach a sufficient scale.

First, Argentina has the opportunity to connect to specific segments of regional value chains (RVCs) and GVCs by facilitating trade in intermediate goods, attracting strategic FDI, and building on existing capabilities in specific industries. Trade in parts and components is higher, on average, for countries that have signed deeper agreements with provisions on investment, competition, and others.\textsuperscript{25} As mentioned above, evidence provided in this report suggests that a deeper Mercosur agreement would boost Argentina’s trade in parts and components with its regional partners. Foreign investors who seek efficiencies in Argentina—as opposed to resources or market access—offer the opportunity to connect domestic firms, and in particular small and medium enterprises (SMEs), to GVCs. For example, building on existing capabilities in specific market segments (such as auto and food processing), Argentina can attract FDI in these sectors while strengthening linkages with local suppliers in order to reorient the production structure and integrate into GVCs and/ or RVCs.\textsuperscript{26}

Second, Argentina can leverage comparative advantages in services to increase FDI and exports. Argentina is competitive in knowledge-based services such as software and information technology services, business services, and audiovisual services. Twenty-eight clusters already host 1,000 companies and employ 37,000 workers, and Argentina has attracted some of the world’s leading information technology (IT) companies to invest in the exporting business. Proper interinstitutional coordination across federal and provincial governments may help to attract more FDI into the knowledge-based services sectors, but investment incentives need to be well coordinated, applied in a (fiscally) conservative manner, balanced, competitively assigned, and properly monitored.
Third, Argentina can foster inclusive trade by facilitating cross-border e-commerce for SMEs. Retail e-commerce in Argentina grew by 50 percent between 2010 and 2015, displaying much stronger progress than selected peer economies in the region and the average in Latin America. However, its share in world retail e-commerce is one-fifth that of Brazil and Australia, which points to untapped potential. Updating legislation on electronic transactions and signatures, privacy and data protection, and consumer protection for online purchases could enhance the growth of e-commerce. By the same token, trade facilitation efforts (in particular, in cross-border procedures) need to be enhanced significantly to facilitate e-commerce and trade more broadly.

Argentina can implement mitigation measures to offset the transition costs of opening up to the global economy.

Integrating into the global economy and taking advantage of available opportunities will entail transition costs in some segments of the economy. Microeconomic reforms, trade integration, and the associated changes in relative prices would trigger a reallocation of production factors (within and between firms and sectors) that entail efficiency gains, but also adjustment costs. Some segments of Argentina’s manufacturing sector are susceptible to adjustment costs. According to data from the Argentinian Chamber of Commerce and Services, the total number of workers in the private sector in sensitive sectors such as automobiles, home appliances, and textiles represents close to 1.7 percent of Argentina’s total labor force, and these industries are concentrated mainly in Buenos Aires and the central region, particularly in Córdoba and Santa Fe.

International experience suggests that there is no one-size-fits-all strategy for effective mitigation measures, but that protecting workers instead of jobs is good practice. When well-designed and tailored to the country context, both active labor-market policies (such as job search assistance and training) and passive policies (including income support and social insurance programs) have proven to be effective. Complementary policies and reforms in other markets (such as housing, credit, and infrastructure) play a crucial role in facilitating mobility, thereby reducing adjustment frictions.27

Argentina has recently put in place adjustment programs to help domestic workers and companies become more competitive, which is a step toward facilitating the reallocation of labor in a context of trade opening and technological changes. Argentina launched the Programa de Transformación Productiva at the end of 2016. This adjustment program is designed to help companies enhance their competitiveness through mechanisms that facilitate improving productive processes; implementing jumps in scale or technology; developing new products; and reorienting production toward more competitive and dynamic activities that demand long-term, high-quality employment. Within three months of the launch of this program, about 20 firms had presented expansion or conversion projects with the potential to add up to 1,000 more workers. The government has also launched the Programa “111 mil, aprende a programar,” an initiative that seeks to train “100,000 programmers, 10,000 professionals, and 1,000 technological entrepreneurs” in the next four years to meet the demand from companies in the knowledge-based services sector. Additional programs of this kind, together with policies to protect workers and reduce adjustment frictions, will increase the social benefits of trade integration.

International experience in structural microeconomic reforms reveals potential gains. However, prior experience has also shown that proper sequencing and monitoring are essential to success.

The economy-wide benefits of trade liberalization are well established, and studies of countries that have executed
more comprehensive structural reform packages suggest that FDI and competition policy improvements are complementary. A microeconomic reform program to open markets to competition in Australia complemented unilateral trade liberalization and added 2.5 percent to GDP. Substantial structural reforms that opened Sweden up to FDI in the early 1990s encouraged private sector participation and strengthened competition, and these reforms were followed by the highest productivity growth rate in the OECD (aside from the United States) during the period from 1995 to 2011, together with wage increases. Mexico complemented its early moves toward trade openness with important domestic market reforms over the last decade. These country case studies are discussed in this report and can inform not only the sequence and nature of reforms, but also successful compensation mechanisms to support the adjustment process and mitigate social costs.

Based on international experience, such ambitious reform programs require a long-term national commitment and interinstitutional coordination. Comprehensive reform programs in Sweden, Mexico, and Australia were gradual and took a decade or more. Argentina’s new strategy should therefore aim at results beyond this legislative period. Argentina could consider establishing a national policy and respective institutional setup that can sustain a comprehensive reform package to integrate into the global economy over the coming decade.

To scale up and sustain reform efforts for a successful transition toward a more competitive, open, and inclusive economy, this report highlights best practices in terms of institutional setup and policy implementation.

Institutions in charge of trade, investment, and competition policy are key to implementing a broad national policy of integration into the global economy. Successful institutions are typically structured efficiently and allow complementarity and coordination among them.

- According to international experience, successful institutions in charge of promoting FDI have certain good practices in common: a precise mandate that allows effective interaction with investors, separate regulatory and promotional functions, and a clear sector strategy. Activities related to trade promotion and investment promotion have, by nature, different needs in terms of staff expertise, skills, target audiences, clients, and stakeholders. Best practices point, in general, to a split between trade promotion and investment promotion, although some IPAs with joint mandates have been successful in attracting FDI. Ireland’s IDA and the Republic of Korea’s KOTRA are good examples of IPAs with separate and joint mandates, respectively. Another feature of the most effective investment promotion agencies is that they focus on promoting a specific location and do not have regulatory roles. A precise mandate to serve investors, to focus on foreign investors and not just domestic investors, and to target strategic sectors—as in the case of knowledge-based services in Argentina—is also key to a conducive investment climate. To address these responsibilities, IPAs can benefit from staff with a private-sector-minded culture and deep business knowledge.

- Effective competition agencies design and implement enforcement and advocacy tools to ensure the greatest impact on market outcomes, work to embed competition principles in broader public policies, and operate under technical and functional autonomy. Autonomy can be critical to applying effective sanctions and issuing recommendations based on objective criteria alone and without political interference. More than half of the world’s 120 competition agencies are institutionally independent from ministerial control. Of these independent agencies, 22 are in developing and transition economies. To use scarce public resources effectively, effective competition authorities also typically focus on the most harmful violations of competition—cartel agreements—and use other antitrust
tools, such as merger control, as a residual tool. Agencies set appropriate thresholds for merger notifications to be able to focus on transactions that are large and may reduce competition significantly in the medium term. A comparative review across 82 countries suggests that these thresholds are generally aligned with the size of the economy. Through dedicated competition advocacy units, agencies also identify and recommend changes to rules and regulations that may facilitate anticompetitive practices in the first place. Authorities also developed joint programs and/or collaboration mechanisms with sector regulators in order to foster pro-competition economic regulation.

Preparation and conduct of negotiations, as well as implementation of their outcomes, are the core responsibilities of trade institutions. To ensure effective trade negotiation, best practices highlight three main responsibilities: analysis, communication and coordination, and representation. Trade institutions should have institutional capacity to collect, analyze, utilize, and disseminate trade-related information, and to ensure independent assessment of the negotiated agreement. Communication and coordination with all stakeholders is also important. Countries such as the United States have set sophisticated interagency coordination processes to ensure the flow of information among all involved government agencies. In terms of consultation and legitimization of internal negotiations with the private sector during trade negotiations, countries like Mexico, through the Coordinating Body of Foreign Trade Business Associations (COECE), have successfully established a recognized consultation process that channels the participation of the private sector and strategic social groups. These functions are best served by representatives who are fully trained in trade policy and negotiation techniques and institutions that are equipped with crucial resources and skills that ultimately guarantee the predictability of trade agreements.

Against this backdrop, the report maps key challenges that firms have been facing in Argentina as they attempt to integrate into the global economy. To address these challenges, this report proposes measures in the areas of trade, investment and competition policy.

Successful integration into the global economy relies on the following four conditions faced by firms: (i) opportunities to enter and invest; (ii) access to efficient input markets; (iii) ability to compete on a level playing field; and (iv) capacity to expand and thrive in global markets (Figure VI).

Specific measures designed under trade, investment and competition policy areas can influence these conditions and bring positive effects on market and productivity dynamics while boosting shared prosperity. Figure VII illustrates how particular policy measures under these three policy areas are associated with each of the four conditions firms face to integrate into global economy. If implemented in a coherent way, these measures can bring positive effects on productivity dynamics, consumer welfare and generate better jobs. For example, opportunities to enter may depend on licenses (which might be general or sector-specific), approval from the CNDC to acquire or merge with a local company, potentially an incentive (especially for foreign companies) from investment promotion agencies to cover the risk and cost of investment, approval to import (import licenses and tariffs) inputs, and so on. When this condition is given, the domestic markets are more contestable, can benefit from knowledge spillovers, and generate new and better jobs.

Based on this framework, the report highlights potential reforms across these policy areas to address business and market challenges in Argentina. Evidence collected for this report suggests that firms that already operate or seek to invest in Argentina have faced challenges across all four conditions and that the solutions to these challenges lie in all three policy areas (trade,
investment, and competition) across the four conditions. That is, no one policy alone can ensure that these conditions are fulfilled and firms can integrate into the global economy (Figure VIII). A summary of policy recommendations is presented in the matrix at the end of this summary (Table I). It reflects the result of a systematic review of all policy areas and regulatory frameworks in key sectors, as well as a prioritization process described below.

**For Argentina to become more competitive and integrate into the global economy...**

**Firms need to have...**

1. **Opportunities to enter and/or invest** as a domestic or foreign firm into a new domestic market

2. **Access to efficient input markets (besides labor and capital)** through competitively priced inputs and services of quality and variety

3. **Ability to compete on a level playing field** through nondiscriminatory access to essential facilities and nondistorted market conditions

4. **Capacity to expand and thrive in global markets**

Rather than sequencing reforms between policy areas, this report suggests sequencing specific reform options within each policy area so as to advance in all three areas simultaneously.

When assessing the potential sequence of reforms, priority should be given to reforms that are feasible in the short term and can achieve tangible results. Argentina should focus first on policy steps that remove key bottlenecks and yield results in the short term, and later on those that require significant resources or comprehensive legal reforms. Table I organizes the recommendations along these lines. For example, removing import bans on used machinery, equipment, and others would arguably benefit in particular smaller businesses that cannot afford new machinery and equipment. Setting up a systematic inventory of incentives is a small but necessary step toward conducting a thorough evaluation and streamlining of incentive programs. Raising merger notification thresholds is an urgent step toward more efficiently using the scarce resources of the competition authority.
**Figure VII.** Associations between trade, investment, and competition policy areas and conditions for successful integration into global markets

**For Argentina to become more competitive in the global economy...**

<table>
<thead>
<tr>
<th>Firms need to have...</th>
<th>This requires adequate implementation of Trade, Competition and Investment Policy instruments at the national and subnational level...</th>
<th>...generating the following effects on market and productivity dynamics...</th>
<th>...and boosting shared prosperity.</th>
</tr>
</thead>
</table>
| Opportunities to enter and/or invest as a domestic or foreign firm into a new domestic market | Investor Entry Regimes  
Incentive Regimes  
Investment Promotion Policies and Capacity  
Market access to domestic markets (import output tariffs and NTMs)  
Custom procedures/border management  
Merger control policies  
Exclusive rights/monopolies | Knowledge spillovers from FDI (especially vertical, through backward and forward linkages)  
Reduced exercise of market power  
Between-firm/sector productivity improvements  
Reallocation of market shares toward higher-productivity firms | Consumer welfare:  
More product variety  
Better jobs:  
With international standards and potential for knowledge transfer from FDI |
| Favorable labor and capital markets and innovation infrastructure | Conducive environment for linkages with local suppliers  
Import input tariffs and NTMs  
Competitive neutrality  
Market regulation in key sectors (access, nondiscrimination)  
Antitrust enforcement | Within-firm productivity improvements  
Incentives to invest in new technologies, cut managerial slack, adopt new management practices, change input variety, improve production processes, change the output mix, and diversify | Consumer welfare:  
Better deals and more variety for essential consumer products in domestic markets, too (with distributional effects) |
| Access to efficient input markets  
through competitively priced inputs and services of good quality and variety | Investment protection  
Investment grievance management  
Investment aftercare (retention, expansion, and diversification)  
Export taxes and border management  
Merger control policies  
Antitrust enforcement (cartels and abuse of dominance) | Consumer welfare:  
Better deals and more variety for essential consumer products in domestic markets, too (with distributional effects)  
Better jobs:  
More productive jobs (learning by exporting, deepening linkages with local suppliers) |
| Ability to compete on a level playing field  
through nondiscriminatory access to essential facilities and undistorted market conditions | |

**Note:** Purple-colored policy instruments refer to trade instruments, blue to competition policy instruments, and green to investment policy instruments.
Strengthening the capacity to investigate cartels is a critical prerequisite for an effective leniency program, under which the first cartel member to come forward can seek exemption from fines in return for assistance in pursuing the rest of the cartel. In addition, ensuring the autonomy of the competition agency is key to tackle the most harmful private and public barriers to competition.

**Argentina can open up opportunities to enter and invest by addressing challenges in the business-enabling environment.**

Currently, entrepreneurs generally face difficulties in starting a business, registering property, and paying taxes. Obtaining a construction permit, for example, takes almost a full year. Argentina ranks in the bottom third of the Doing Business 2017 ranking of the overall ease of doing business. Some firms cannot invest at all because of absolute barriers to entry, such as limits to foreign investments in air transport. Where firms want to invest, there is little predictability in terms of which incentives they can access and they are often required to negotiate with several levels of government.

Argentina can address the red tape and bureaucratic hurdles by setting general procedures for regulatory simplification and establishing a broad application of the silence-is-consent rule. The government can further open up key sectors for investment and eliminate barriers that limit market entry (for example, in the air transport sector) and improve the incentive framework by setting up systems to help adjudicate, monitor, and evaluate incentive schemes. Finally, the government can facilitate entry of firms that organize their activities around imports of final goods rather than investment on production by lowering tariffs and NTMs in protected sectors such as furniture, and home appliances, as it was recently done with computers. The large number of measures related to product standards reveals opportunities to streamline regulations to lower trade costs.

Argentina can provide investors with access to more efficient input markets by strengthening procompetition regulations.

Improved regulatory design in key service input markets could achieve higher contestability in communications technologies, allow for price signals to attract investment in electricity generation, and reduce the risk of collusion among transport providers. Currently, only 40 percent of broadband connections in Argentina are above 4 megabits per second, compared to 67 percent in top performers in the region. SMEs lost, on average, 2.4 percent of sales due to outages, which is double the amount in comparator countries. Logistics costs have increased by 40 percent since 2003, in real terms.

In industrial input markets, investors seeking more competitive inputs from abroad face nonautomatic licenses and other NTMs, as well as local content requirements. Since 2005, Argentina has increased its use of temporary barriers to trade (i.e., antidumping measures in place) more rapidly than many other middle-income countries. A review of the market characteristics of products affected by these temporary measures suggests that these barriers may often reinforce market dominance.

Argentina can strengthen procompetition regulation in key network sectors, such as transport, electricity, and telecommunications. It can further strengthen anticartel enforcement, in particular in homogenous input markets, and simultaneously reduce NTMs, including nonautomatic licenses for input products. Finally, Argentina can actively promote linkages with domestic firms by setting up online databases of national suppliers, redesigning performance requirements, and avoiding local content requirements.

Argentina can strengthen the level playing field and ensure undistorted market conditions to allow the most productive and efficient firms to grow.
Argentinian state-owned enterprises (SOEs) operate in 17 sectors without a clear set of rules that guarantee competitive neutrality relative to private investors. These and other direct government interventions in the market (such as the price control system) can generate business risk and reduce investor confidence.

To ensure that government interventions in the market do not reduce predictability for potential market entrants, Argentina can establish rules that set the right incentives for SOEs to compete in the markets or that simulate competitive outcomes. For example, it can incorporate SOEs under the same regime as joint-stock companies and introduce tax and regulatory neutrality principles for SOEs. In addition, it can fully revoke instruments that can—even if gradually being phased out—eventually allow for discretionary application, such as the Supply Law that enables price control.  

Argentina can promote firms’ capacity to expand and thrive in global markets and to fully integrate into the global economy by reducing nontariff measures, boosting investor confidence, and facilitating more efficient review of proposed mergers and acquisitions.

Figure VIII. Proposed policy actions for Argentina and how they relate to the policy areas of trade, investment, and competition
In the past, adverse government interventions have prevented investment from expanding and thriving. Participation in global production networks has been stifled by high tariff and nontariff barriers on parts and components. As of October 2016, over 1,600 tariff lines are still subject to import licenses that are not subject to automatic approval, and other NTMs and procedural obstacles remain. Existing import bans on used capital goods constrain expansion, and potentially more so for SMEs that are less able to afford new machines. Furthermore, Argentina has an unfavorable track record on investor-state disputes, even though most of these arose under previous governments.

Argentina can reduce NTMs, harmonize technical standards with trade partners and therefore facilitate both exports and imports. It can establish clear protocols for addressing problems faced by foreign investors and proactively create a legal obligation for regulatory agencies to publish proposed regulations before they are enacted. A systematic investor response mechanism could also increase investor confidence. Finally, Argentina can overhaul the framework for reviewing mergers and acquisitions to accelerate efficient firm consolidation.

To achieve the full potential of Argentina’s reintegration into the global economy, institutions will need to effectively coordinate so that reform initiatives are concurrent, coherent, and integrated in design and implementation.

Reforms in these areas need to be implemented in a coherent way to ensure that positive payoffs stemming from reforms on one front are not curtailed by inappropriate (or lack of) reforms on the other two fronts. In this way, firms can enter and invest in the market, access inputs to their products, compete on a level playing field, and expand and thrive in global markets. In line with Figure VIII, the AAICI will not be able to promote FDI in GVCs successfully if trade in parts and components is obstructed by NTMs involving other government institutions. By the same token, the CNDC’s objective of ensuring a level playing field among domestic and foreign competitors could be hampered by potential discretionary and selective investment incentives relevant to AAICI. Similarly, attempts by the Ministry of Production’s Undersecretariat for Foreign Trade (Sub-Secretaria de Comercio Exterior) to expand market access for Argentinian exporters could be impaired by distortive regulation of input services (such as logistics, telecommunications, and energy). The CNDC can also act as a market intelligence institution, providing recommendations and analysis on market structure and dynamics to other public bodies in order to foster more contestable markets.

Ultimately, Argentina could design better policies and regulations to break down barriers to competition. In some cases, this will involve jointly removing or overriding rules that hinder competition; in other cases, it means designing different rules and regulations that achieve public policy objectives while minimizing market distortions and preventing that firms do not engage in anticompetitive behavior. A comprehensive regulatory reform agenda with clear prioritization, improvement mechanisms, and monitoring can tackle this systematically. Given the connections among trade, investment, and competition policy—in theory and in practical application—all institutions will need to coordinate to ensure that integrating Argentina into the world economy elicits the greatest possible gains in terms of increasing the welfare of the broader population.

Looking forward, Argentina could benefit from a comprehensive strategy to improve data availability—especially at the firm level—as well as further analytical work. Systematic data collection and statistics are key for detailed design of reform options and estimations of potential further reform impact. While individual surveys such as the Pilot Survey on Innovation and Employment Dynamics (Encuesta Nacional de Dinámica de Empleo e Innovación, or ENDEI, in Spanish) yield valuable information, Argentina could aim to collect firm-level panel data in a
consistent manner and make it publicly available to academia, specialized government units, and private think tanks, making sure to adhere to the usual data protection standards. This information can also be complemented by market-level information stemming from competition enforcement and advocacy implementation. This would allow a broader body of research to become available as an input into effective, evidence-based policy design and as a means to help identify policy changes that could foster additional reform momentum.

**TABLE I. Matrix of policy recommendations**

<table>
<thead>
<tr>
<th>Short Term</th>
<th>Medium Term</th>
<th>Long Term</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Quick wins: urgent policy actions that are relatively feasible with short-term impact</strong></td>
<td>Important milestones: policy actions that require more substantive legal reforms, negotiations, or institutional efforts with substantial impact</td>
<td>Policies that require high-level, complex institutional reforms, could encounter substantial political opposition, and/or involve significant external constituencies</td>
</tr>
<tr>
<td><strong>Open up further opportunities to enter and invest</strong></td>
<td><strong>Lower tariffs and NTMs in priority sectors</strong></td>
<td><strong>Harmonize standards among Mercosur parties</strong></td>
</tr>
<tr>
<td>Limit nonautomatic licenses to the minimum (such as hazardous imports)</td>
<td>Unilateral tariff reduction for highly protected sectors</td>
<td>Pursue FTA with EU</td>
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<td></td>
<td></td>
<td>Pursue “community reforms” at Mercosur</td>
</tr>
<tr>
<td></td>
<td><strong>Improve incentive framework to more effectively attract efficiency-seeking FDI</strong></td>
<td><strong>Pursue “community reforms” at Mercosur</strong></td>
</tr>
<tr>
<td>Introduce a systematic inventory of incentives</td>
<td>Procedural mapping of steps to adjudicate incentives</td>
<td><strong>Strengthening monitoring and evaluation of incentives</strong></td>
</tr>
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<td></td>
<td></td>
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</tr>
<tr>
<td></td>
<td><strong>Open key sectors for investment and eliminate barriers that limit market entry</strong></td>
<td><strong>Open domestic air transport market to foreign carriers</strong></td>
</tr>
<tr>
<td>Limit government’s liability for losses of Aerolineas Argentinas</td>
<td>Eliminate “public hearing” for granting new licenses</td>
<td><strong>Broad application of “silence is consent” rule</strong></td>
</tr>
<tr>
<td>Address red tape and bureaucratic hurdles that affect ease of doing business, particularly in the entry phase</td>
<td>Better regulation efforts to improve the ease of doing business in key areas</td>
<td>General procedure for regulatory simplification</td>
</tr>
<tr>
<td><strong>Enhance access to more efficient input markets for firms</strong></td>
<td><strong>Unilateral NTM reduction in input products</strong></td>
<td><strong>Reduce NTMs for key industrial inputs</strong></td>
</tr>
<tr>
<td><strong>Unilateral NTM reduction in input products</strong></td>
<td><strong>Introduce effective policies to promote linkages with domestic firms</strong></td>
<td><strong>Introduce behavioral incentives for firms to enhance capacities</strong></td>
</tr>
<tr>
<td>Remove import ban on used machinery, equipment, instruments, devices, and parts</td>
<td>Develop a central (online) database of national suppliers</td>
<td><strong>Introduce leniency program</strong></td>
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<td></td>
<td>Redesign performance requirements and local content rules, for example revising tax benefits in auto industry</td>
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<tr>
<td>TABLE I. Continue</td>
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<tr>
<td>Enhance access to more efficient input markets for firms</td>
<td>Strengthen procompetition sector regulation in key input services</td>
<td></td>
</tr>
<tr>
<td>Implement rules to protect competitive neutrality in the telecoms sector</td>
<td>Fully enforce Mobile Virtual Network Operator (MVNO) framework</td>
<td>Allow pay TV companies to offer telecommunication services</td>
</tr>
<tr>
<td>Guarantee effective nondiscriminatory access in rail freight</td>
<td>Review toll exemption rules for - private (&quot;self&quot;) cargo transport and public cargo transport (to third parties)</td>
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</tr>
<tr>
<td><strong>Enhance predictability and a level playing field for the private sector</strong></td>
<td><strong>Implement competitive neutrality principles and eliminate instruments that can limit competition</strong></td>
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<tr>
<td>Eliminate the government’s ability to control prices</td>
<td>Incorporate SOEs under the same regime as private joint-stock companies</td>
<td>Introduce regulatory and tax neutrality principles for SOEs</td>
</tr>
<tr>
<td><strong>Enhance the capacity of firms to thrive and expand</strong></td>
<td><strong>Remove nonautomatic licenses to increase predictability</strong></td>
<td></td>
</tr>
<tr>
<td>Remove nonautomatic licenses to increase predictability</td>
<td>Limit nonautomatic licenses to the minimum (hazardous imports)</td>
<td></td>
</tr>
<tr>
<td><strong>Reduce regulatory and legal uncertainty through broad regulatory improvement mechanisms</strong></td>
<td><strong>Introduce a clear procedural protocol to enforce problems faced by foreign investors and arising from regulatory conduct</strong></td>
<td><strong>Legal obligation for regulatory agencies to publish text or proposed regulations before enactment</strong></td>
</tr>
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<td>Legal obligation for regulatory agencies to publish text or proposed regulations before enactment</td>
<td>Establishment of a systemic investor response mechanism</td>
</tr>
<tr>
<td><strong>Strengthen the legal framework for e-commerce</strong></td>
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<tr>
<td>Remove exemptions to e-signatures and e-documents; give validity to all types of e-signature</td>
<td>Strengthen consumer protections specific to electronic consumers</td>
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<tr>
<td><strong>Overhaul merger control framework</strong></td>
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<tr>
<td>Raise notification threshold for mergers</td>
<td>Introduce fast-track procedures for mergers unlikely to have anticompetitive effects</td>
<td>Improve procedural effectiveness in reviewing mergers</td>
</tr>
</tbody>
</table>

Note: While this table identifies short-, medium-, and long-term priorities based on the binding constraints, medium- and long-term priorities should be addressed simultaneously with short-term priorities if they require changing the same law. The reforms may also involve other third parties (such as regulators, cancilleria, parliament, and others), which this table does not highlight.
Notes

1. As seen from the growth accounting exercise, total factor productivity has in fact been dragging down growth rather than boosting it over the past few years.

2. All values from the World Bank’s World Development Indicators (WDI) database.

3. Argentina is party to five partial-scope agreements, according to the World Trade Organization’s regional trade agreements database.

4. World Bank Group (WBG) analysis using data from the Argentinian Central Bank shows that, between 2012 and 2015, half of this FDI constituted reinvestment of earnings, artificially boosted, at least in part, by restrictions on repatriation of investors’ profits.

5. See WDI database. Low (private and public) investment has led to a declining capital stock in Argentina, with direct effects on infrastructure quantity and quality. According to (World Bank, 2015), Argentina dropped 62 positions in the worldwide ranking of infrastructure quality between 2006 and 2015, as per the World Economic Forum survey. Investing more in infrastructure would be a key driver to increase the country’s competitiveness by enabling firms to reap the benefits of further integration with the global economy. FDI can play a pivotal role in this area.

6. Percent of household final consumption expenditures spent on food that were consumed at home (in 2016), as computed by Economic Research Services of US Department of Agriculture. The comparator countries are the same as used across this report. When considering only the developing economies in this comparator group, the average share is 18 percent. Data available at: https://www.ers.usda.gov/data-products/food-expenditures.aspx

7. Estimations based on Numbeo data for the 2010-2015 period.

8. Argentina’s competition authority has initiated market studies in some of these product markets.

9. The exception is the social tariff for transport services targeted to poor people.

10. The elimination of the DJAI and introduction of the SIMI, at the end of 2015, eliminated the preapproval process. This new regime maintained about 1,400 tariff lines subject to nonautomatic licenses. Subsequent resolutions have modified the list of nonautomatic licenses, with the end result of increasing tariff lines to 1,626 in October 2016.

11. With the removal of the DJAI, the NTM ad valorem equivalent is reduced by five percentage points for many goods sectors. The Computable General Equilibrium (CGE) exercise compares the resulting economic outcomes accrued by the introduction of SIMI/replacement of DJAI versus a baseline projection through 2020 without the reform. CGE results show that real GDP would be 0.14 percent higher than the baseline value by 2020.


13. The competition authority (CNDIC) had determined that the payment card acquirer, processor and point of sale operator Prisma (owned by Visa and 14 Argentinian banks) had a dominant position in the market and recommended changes to the legal framework for payment cards, many of which have since been implemented. In September 2017, CNDIC accepted a divestment plan by Prisma that also obliges the firm to offer its payment processing services to competitors in a nondiscriminatory way. In March 2017, banks, payment card companies, and chambers of commerce in Argentina agreed on a plan to gradually interchange fees from 3 percent to 1.8 percent by 2021.

14. See discussion on the fiscal implications in the main report.

15. As mentioned above, CGE results show that the removal of DJAI and introduction of SIMI at the end of 2015 would increase real GDP by 0.14 percent above the baseline value by 2020. This “elimination of DJAI” scenario is considered a partial reform in the sense that nonautomatic import licenses still cover a share of trade in certain sectors; as of October 2016, about 1,600 tariff lines remained with import licenses that were not subject to automatic approval. CGE simulations suggest that expanding this reform to eliminate all remaining nonautomatic licenses would bring the GDP gains from 0.14 to 0.22 percent above the baseline projections for 2020.

16. This scenario includes a reduction in tariffs in all Mercosur countries for world imports by 50 percent (tariffs within Mercosur are essentially zero), a 15 percent cut in NTMs within the borders of Mercosur, and the elimination of export controls among Mercosur parties.

17. This scenario includes reciprocal tariff reductions, where the average tariff applied to EU products by Argentina would fall from about 11 percent to about 3 percent by full implementation in a ten-year time horizon, while the average tariff in the EU for Argentinean products would fall from about
3 percent to close to zero. Also, NTMs would be streamlined by 15 percent and export controls eliminated among the parties.

18 This scenario is similar to the Mercosur–EU agreement, but with lower tariff reductions. The average tariff applied by Argentina to products from the Pacific Alliance would fall from about 1 percent to 0.3 percent, and the average tariff in the Pacific Alliance on products from Argentina would fall from 2.3 percent to 0.3 percent.

19 The CGE model does not include some possible dynamic factors proposed in the literature, such as productivity increases from endogenous growth effects via technological spillovers and “learning by doing,” as well as FDI and foreign technology inflows that may be induced by the reform. Moreover, certain policy changes that are often difficult to quantify, such as reforms related to NTMs in goods and services and restrictions to investment, present analytical challenges that may affect the estimated economic effects. CGE results may underestimate the likely impacts due to these limitations.

20 Ex post evidence in the trade reform literature tends to suggest larger gains than ex ante analysis such as that presented here. See, for example, Casacuberta et al. (2011); Wacziarg & Welch (2008); Salinas & Aksoy (2006), Felbermayr et al. (2011), and Falvey et al. (2012).

21 See, for instance, Petri & Plumer (2016) and Araujo & Flaig (2016).

22 Empirical estimations used as inputs for these results include: a gravity model on trade in parts and components, a panel-data estimation with firm-level data on price-cost margins and firm-level productivity, and a panel-data estimation of the link between regulatory restrictiveness in services sectors and growth in industries that use such services intensively among OECD and additional developing economies.


24 The share of services exports has increased from around 9 percent in 1970 to around 20 percent in 2014 (Loungani et al., 2017).

25 Most modern-day trade agreements contain provisions that cover a wide array of NTMs, both at the border and behind the border (for example, technical barriers to trade (TBT) and sanitary and phytosanitary (SPS) measures, rules on investment and intellectual property rights (IPR) protection, provisions on competition policy, and so on). Recent FTAs tend to go beyond multilateral rules. The literature refers to these new trade agreements as “deep” to distinguish them from traditional FTAs that focus only on market access commitments—sometimes referred to as “shallow” (Osnago et al., 2015).

26 A more detailed GVC analysis could offer insights into the potential for upgrading and diversifying these exports.

27 Evidence suggests that adjustment frictions can reduce the gains from trade. In the case of Mexico, Kambourov (2009) finds that a lack of flexibility in the labor market slowed the reallocation of labor in response to trade reform, so that the benefits of the reform were as much as 30 percent less than would have been achieved under a more flexible labor market. Similarly, Dix-Carneiro (2014) finds that the reallocation in the labor market following trade liberalization in Brazil would accelerate from fourteen years to four years if capital were completely mobile.


29 See Dougherty (2015) for further discussion.

30 See UNCTAD (2011) for further discussion.

31 Import tariffs for certain computer items were brought down to zero in March 2017.

32 Estimations based on the World Bank’s Global Antidumping Database (Bown, 2016) measuring the stock of anti-dumping (AD) measures (AD investigation resulting in AD measures, minus measures revoked over time) in Argentina and other 32 economies. The average number of measures in place in Argentina in the period 2005–2009 was 79, which increased to 103 by the period 2010–2014 (a 30 percent increase). Middle-income countries in the database accounted for 936 measures in place in 2005–2009, which increased to 1,070 measures by 2010–2014 (a 14 percent increase). High-income countries accounted for 565 measures in 2005–2009, which decreased to 532 measures by 2010–2014 (a 6 percent decrease). By 2010–2014, Argentina would be the top-seven user of AD measures, after India, the United States, Turkey, Brazil, China, and the EU.

33 Although the Macri administration had initially reduced the number of products included under the “Precios Cuidados” program, in September 2017, it extended it again until January 2018, maintaining 325 products in the list and adding 151 new products.
References


