

Political Economy of Trade Policy in Latin America



Edited by

Jorge Cornick | Jeffry Frieden

Mauricio Mesquita Moreira | Ernesto Stein



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The Challenges of Leaving Protectionism Behind: The Political Economy of Trade Policy in Argentina

Juan O'Farrell, Martín Obaya, and Anabel Marín

In 2015, the government of Argentina experienced a significant shift in its programmatic orientation from an administration characterized as left-of-center and interventionist to one considered right-of-center and market friendly.¹ The contrasts between the *Frente para la Victoria* (2003–2015) and *Cambiamos* (2015–2019) administrations were particularly visible regarding trade policy preferences. The administration of Mauricio Marci of *Cambiamos* took power with an ambitious trade liberalization agenda.²

The objective of this chapter is to understand the political economy factors that explain the scope and pace of import liberalization in Argentina between 2015 and 2018. This period offers an interesting case to examine the political and institutional challenges faced by a liberal administration trying to reverse many years of protectionist policies. The chapter aims to address, in particular, the following research questions:

- What political economy factors determined the government's trade policy strategy?
- What were the trade liberalization tactics adopted by the government? This includes the analysis of specific trade policy tools and

¹ For more on these characterizations of the parties see Etchemendy and Garay (2011), Bonvecchi (2011), Vommaro (2017), and Casullo (2016).

² In 2019, *Cambiamos* lost the presidential elections against a left-leaning coalition (*Frente de Todos*) formed by the main leaders and organizations of the *Frente para la Victoria*.

complementary policies to alleviate resistance from the affected groups.

- What mechanisms did import-competing firms put in place to confront trade-opening initiatives?

A multiple case study analysis designed to discuss these questions compares three industries: (1) textiles and apparel, (2) flat steel, and (3) computers. The primary criterion for the selection of cases was to cover different government trade policy strategies. While during the episode covered a higher priority was given to the liberalization of computers and intermediate inputs like steel, a more gradual stance was adopted toward textile and apparel.

The analysis of the trade policy in each industry is conducted around selected revealing episodes that work as starting points for the research. For the textile and apparel sector, the establishment and administration of non-automatic licenses are analyzed. In addition, the analysis examines attempts by key stakeholders to set up a textile and apparel roundtable. For the flat steel industry, the analysis looks at the removal of non-automatic licenses on selected products. Finally, the analysis of the computer industry examines two episodes: first, the removal of import tariffs on personal computers, notebooks, and tablets; and second, a tripartite agreement signed within the framework of Tierra del Fuego's special promotion regime among business associations, trade unions, and government. The analysis also looks at selected episodes related to the administration of other products covered by this special regime, as they offer interesting comparative insights related to the case of computers.³

The analysis of these episodes seeks to understand the influence of three types of factors:

1. Determinants of the government trade policy strategy

The *Cambiamos* administration considered the inward-looking orientation it inherited from the previous administration to be a limitation to economic development. During the presidential campaign, Macri's political coalition advanced the idea of a more open economy, with talk of "intelligent integration into the world." A more open economy was conceived as a necessary condition to improve productivity and living standards.⁴

³ For sources of information, the authors rely on primary and secondary data, including 20 interviews with relevant stakeholders from the private and public sector (see the list of interviews in Annex 2.1).

⁴ As outlined in the Ministry of Production's 2016 *Plan Productivo Nacional*.

However, aware of the majoritarian public rejection of the neoliberal reforms of the 1990s and their association with the 2001 crisis, the government promised a more sensible approach to reform. The *Cambiamos* administration tried to differentiate itself from past right-of-center experiences by presenting its program as a combination of market liberalization with progressive ideals, such as poverty reduction, while rejecting the temptation to revert to Argentine populism (Casullo 2016).

The government also took into consideration the “sensitive” nature of the sectors. This attribute regarded the capacity of producers to face international competition resulting from a process of trade liberalization. Both the apparel and computer industries met this condition. However, the “sensitiveness” also concerned employment levels and the capacity to reallocate jobs to more competitive sectors. This helps to explain why the liberalization advanced faster in the computer sector, where employment levels were lower. By contrast, in the apparel industry the government adopted a more gradual liberalization, while providing support for the migration of workers to more competitive firms. The liberalization of sensitive industries was also affected by strategic political considerations, particularly in crucial electoral districts in the suburbs of Buenos Aires.

2. Tactics adopted by the government to advance with the liberalization process in each of the selected industries

As in previous liberalization processes, the government implemented tactics to minimize opposition from potential losers and gain support from potential winners. This chapter attempts to understand the effectiveness of three types of mechanisms used by the government across the selected episodes, conceptualizing them as mechanisms of compensation, transformation, and consensus.

- *Compensation mechanisms:* “Compensation” is understood as the state granting alternative sources of business or resources to firms or groups negatively affected by liberalization. The purpose is to neutralize resistance to free trade.
- *Transformation/adaptation mechanisms:* Transformation mechanisms are conceived as policy initiatives to strengthen firms’ and workers’ capabilities to transit from firms negatively affected by liberalization toward more competitive and dynamic firms and sectors. In particular, the analysis will look at the role played by the *Programa Nacional de Transformación Productiva* (PNTP). This program sought to facilitate the reallocation of people while protecting displaced workers by providing more generous unemployment benefits and job search assistance to seek out dynamic firms and sectors.

- *Consensus mechanisms:* Consensus mechanisms are understood as the creation of formal institutional spaces for deliberation and negotiation among public and private stakeholders. This includes sectoral dialogues and the Tripartite Agreement for Competitiveness of the electronics industry. The main aim is to create conditions for the industry to adapt to free trade.

3. Sources of influence of import-competing sectors

This analysis looks at how the power of potential losers affected the liberalization process, identifying different sources of influence. Structural power derives from a firm's ability to make decisions to invest or reduce/close down operations, with consequences on employment and economic activity. Citizens' fear of economic deterioration is likely to generate pressure on policymakers (Hacker and Pierson 2002, 281). Instrumental power originates in business relationships with policymakers (partisan linkages, institutionalized consultation, recruitment into government, election to public office, and informal ties) and business resources (cohesion, expertise, media access, and money) (Fairfield 2015).

In addition, this chapter analyzes how intra-value chain coordination affected the trade liberalization process. The literature on business politics argues that sectors that come together to make common demands confer legitimacy to their claims and increase the costs of divide-and-conquer strategies (Fairfield 2015). As a result, they are more likely to get what they want (Frieden 1991). This chapter aims to expand this argument by assessing the role of cooperation between actors operating in different stages of the value chain with prior divergent preferences for free trade.

These business power considerations must be framed in Argentina's economic and trade policy trajectory. Protectionism has been a historical feature of the country that has reinforced protectionist interests (López and Pascuini 2018; Leiras and Soltz 2006). Considering policy feedback effects in which "policy creates politics" (Pierson 1996), the persistence in time of a protected economy politically strengthens the actors that benefited from protection. In this context, the government tactics described above become more relevant to break resistance to liberalization and build export coalitions.

The next section analyzes trade policy tools during the *Cambiamos* administration, and the three sections that follow are dedicated to the specific cases of the textile and apparel, flat steel, and computer sectors. The analysis is guided by the political economy factors mentioned above: government strategy, government tactics, and business power. The chapter then turns to a general discussion of the role of these political economy

factors in the resulting scope and pace of import liberalization during the *Cambiamos* administration.

2.1. Trade Policy in Argentina under the Macri Administration

2.1.1. Policy Tools

In terms of policy tools, the aim of the government can be summarized as follows: (1) to lower tariff barriers within the limits imposed by the Southern Cone Common Market (MERCOSUR) Common External Tariff (CET) rules; (2) to replace the system of non-automatic import licenses (NALs) put in place by the previous administration with a new scheme of licenses that respected the rules of the World Trade Organization (WTO); (3) to introduce changes in anti-dumping measures; and (4) to increase the use of technical regulations to replace nontariff barriers to trade, such as NALs. The sections that follow summarize how these policy tools were managed under the Macri administration.

Tariffs: Lowering Protection within the Limits of the Common External Tariff

As Argentina is a member of MERCOSUR, its tariff protection is largely determined by the CET of the customs union. This constrains Argentina's autonomy to use this policy tool. The Most Favored Nation weighted average CET is around 12 percent, which is much higher than the CETs adopted by other Latin American countries (7 percent), North America (3 percent), and Europe (4.3 percent).⁵

Also, tariff levels applied to basic and intermediate inputs are particularly high. There is a big jump between the tariff applied on raw materials (1 percent) and those applied on basic inputs (10 percent) and intermediate inputs (13 percent). Furthermore, the CET on "sensitive" products is above the average, reaching 20 percent, with peaks of 35 percent in footwear and garments, 25 percent in footwear parts, and 22 percent in yarns and fabrics. The structure of the CET in many cases resulted in negative effective protection on the very goods whose production it was meant to promote. For these reasons, one of the primary objectives of the government was to lower the tariff on basic inputs affecting many downstream industries.

In the short run, the autonomy of the government to change the tariff structure was limited to the exceptions to the CET agreed upon by MERCOSUR member countries. Besides the exclusion of the sugar industry (five tariff

⁵ Source: World Bank, World Integrated Trade Solutions database.

Box 2.1**List of Exceptions from the MERCOSUR Common External Tariff**

National List of Exceptions (LEN): Allowed for 100 tariff lines to be excluded until 2021 from the Common External Tariff. Argentina was near the limit with 90 positions.^a

List of Temporary Increases (LET): Allowed for an exceptional and temporary increase in tariffs in 100 tariff positions. Argentina included 92 tariff lines in this list.^b

List of Capital Goods (BK): Exceptions in these products are allowed until 2021. A total of 322 positions were included with a tariff of 2 percent.^c

List of Computer Goods and Telecommunications (BIT): 182 positions free of tariffs were included in this list.

^a The list of products is defined in Annex I of Decree 847/2018 (September 9, 2018).

^b The list of products is defined in Annex II of Decree 847/2018 (September 25, 2018).

^c The list of products is defined in Annex I of Decree 837/2018 (September 19, 2018).

lines) and automotive industry (57 tariff lines), there are four main types of exceptions from the CET (Box 2.1).⁶

In the short term, the strategy focused on making more efficient use of the lists of exceptions. For instance, in the case of the National List of Exceptions, some intermediate inputs scarcely used in domestic production were replaced by products with a higher share in the import structure. The last modification of the lists was carried out in September 2018. In the medium term, the government intended to negotiate an expansion of the lists. In the long run, an all-encompassing reform of the CET was expected to be discussed with MERCOSUR member countries.

Import Licenses: Gradual Removal of Non-Automatic Licenses

Before the Macri administration took power, the government had already decided to remove the Advance Sworn Statements of Import (DJAI), as the WTO objected to it. The government adopted a strategy of gradual “organized withdrawal” from the scheme—which, in essence, operated as a NAL—to protect jobs and the survival of viable firms with competitive potential. The tariff lines included in the DJAI regime remained covered by the *Sistema Integral*

⁶ Other special non-harmonized trade regimes, preferential trade agreements with third countries, and commercial defense practices have not been considered here.

de Monitoreo de Importaciones (SIMI). The system was designed as a transitory mechanism of import licenses, more transparent and less discretionary than the DJAI. It was conceived as a tool to manage a progressive process of liberalization, particularly for sensitive industries.⁷ The Secretary of Commerce committed to remove restrictions gradually and replace them with technical regulations, regarded as a more transparent tool.

The SIMI included automatic and non-automatic import licenses, neither of which could discriminate among applicants or countries of origin. Whereas the former had to be approved within 10 days, the NALs had to be granted within 60 days. Licenses could only be rejected based on formal mistakes in the application procedures (e.g., incomplete or incorrect data). Therefore, they could be used to delay but not to restrict imports (at least in theory).

With the SIMI, the government enacted non-automatic licenses for 1,665 tariff lines. This included 22 percent of imports across all industrial sectors, with a significant predominance of textiles, which accounted for 44 percent of the total. NALs were to be removed first from products with “natural” protection (e.g., high transport costs) or not produced in the country. Protection would be kept longer for industries that might otherwise be under pressure, especially those with high employment. The liberalization of sensitive industries would be carried out in parallel with a restructuring process.

The first step was the removal of 313 tariff lines in January 2017. In March 2018, 158 lines were eliminated. By October 2018, a total of 1,194 remained in force, with 53 percent corresponding to textiles and apparel.

Anti-Dumping

Two government bodies took part in the process of investigating and determining the anti-dumping duties: the National Commission of Foreign Trade (*Comisión Nacional de Comercio Exterior* - CNCE) and the Unfair Trade Directorate (*Dirección de Competencia Desleal* - DCD). Both operated under the umbrella of the Ministry of Production. Argentina has used anti-dumping measures extensively, being the fifth largest global user. Around 15 percent of the tariff lines were affected by anti-dumping measures, representing around 1.5 percent of imports. The demand for anti-dumping was highly correlated with the macroeconomic situation—particularly the evolution of manufacturing activity and the exchange rate (Nogués and Baracat 2005; Berlinski 2008)—and the level of protection. During the Macri administration,

⁷ The DJAI system, in contrast, was conceived as a tool to curb the external deficit. In fact, the authorization to import was often conditioned on the commitment by the importer to export other products—even products not produced by the firm—to offset the foreign exchange outflow.

requests for advice to the CNCE peaked at 72 in 2016, when the DJAIs were removed. Between 2012 and 2016, when the system was in force, the number of requests had averaged 15.

Progress in the Development of Technical Regulations

Compared to other countries, Argentina uses trade regulations very little. In 2016, Argentina had 566 technical regulations, compared to 4,638 in the United States, 2,369 in China, 2,024 in Brazil, and 1,638 in the European Union. One pillar of the trade policy strategy was to progressively replace NALs with trade regulations. Additionally, this was expected to foster quality in domestic production. Although the government managed to make some progress in this area, the outcomes fell short of expectations.

The design of trade regulations is a complex and negotiated process involving multiple public and private actors and a large variety of activities. It involves the definition of standards, compliance tests, inspection procedures and certifications, among other matters. Interest groups attempt to impose rules that protect them from foreign competition. This effort, plus the fact that the first team created to manage it lacked the capabilities to do so, partly explains why the Argentine government was unable to make much progress in expanding trade regulations.

2.1.2. General Outcome

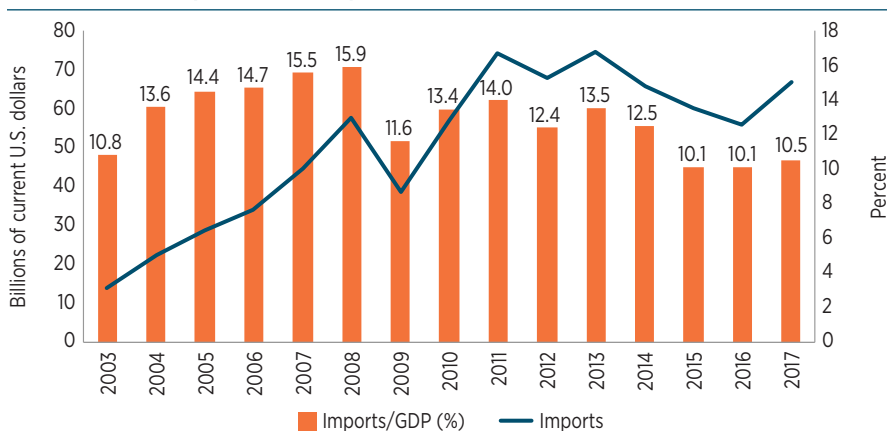
After a moderate drop in 2016, imports increased substantially in 2017. However, they remained below peaks reached in previous years (Figure 2.1). The appreciation of the exchange rate and the adoption of the SIMI—which was more relaxed than the DJAI regime—were among the most important factors accounting for this performance. Despite this expansion, in 2017 Argentina was still one of the most closed economies in the world in terms of its imports-to-GDP ratio, third after only Brazil and Sudan, according to the World Bank.⁸

2.2. Case Study 1: The Textile and Apparel Industry

Given the “sensitive” nature of the textile and apparel industry, the government adopted a gradual opening strategy for it. Nonetheless, there were differences across the various value chain segments and products. The liberalization was faster for products with a high impact on downstream prices and low employment, such as synthetic yarns and low-quality cotton

⁸ World Bank data, available at <https://data.worldbank.org/>.

Figure 2.1
Evolution of Imports and Imports/GDP



Source: Instituto Nacional de Estadística y Censos de la República Argentina.

yarns. The idea was that more dynamic and competitive segments should absorb employment losses of the less competitive segments or products undergoing “transformation.”⁹

Textile and apparel imports increased significantly during this period. However, the pace and depth of trade liberalization fell short of initial government expectations. One of the main limitations was the weakness of consensus and transformation mechanisms adopted by the government in an adverse macroeconomic context. At the same time, some of the private sector actors were able to articulate protectionist interests across the value chain.

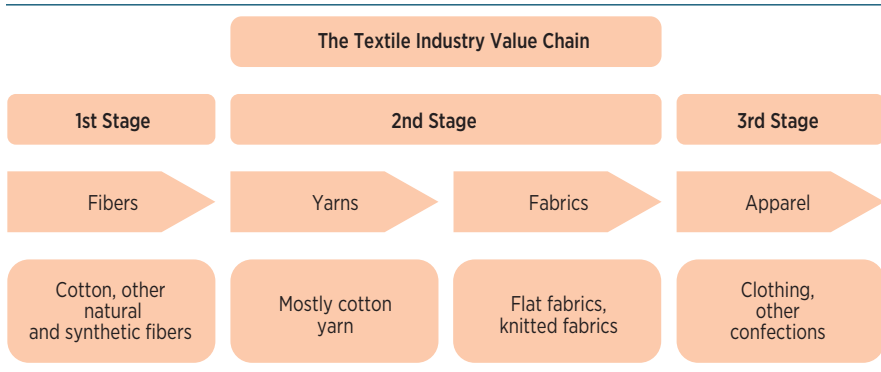
2.2.1. Brief Description of the Industry

Figure 2.2 depicts the structure of the textile and apparel value chain. The first stage corresponds to the production of fibers, such as cotton or other natural or artificial fibers. In the second stage, yarns and fabrics are manufactured. Apparel is produced in the third stage. This chapter focuses on stages 2 and 3.

Yarn production is the most capital-intensive stage of the chain and operates with larger economies of scale. Consequently, it is the most concentrated segment. TN&Platex, Tipoití, and Mafissa are some of the largest players in this segment. These firms have a particular interest in protecting not just their segment, but also downstream segments such as fabrics and apparel, which are their main customers.

⁹ See the Ministry of Planning’s 2016 *Plan Productivo Nacional*.

Figure 2.2
Structure of the Textile and Garment Value Chain



Source: Prepared by the authors.

Although synthetic and cotton yarns share some characteristics, the latter segment is considered to have competitive potential, since Argentina is a large cotton producer.¹⁰ Cotton fabrics are produced by a large number of medium-sized and large companies spread out across the country. By contrast, synthetic flat fabrics were supplied by just one synthetic yarn producer (Mafissa) that had competitiveness and quality problems. Hence, the government decided to keep protection of cotton yarns temporarily while liberalizing synthetic yarns.

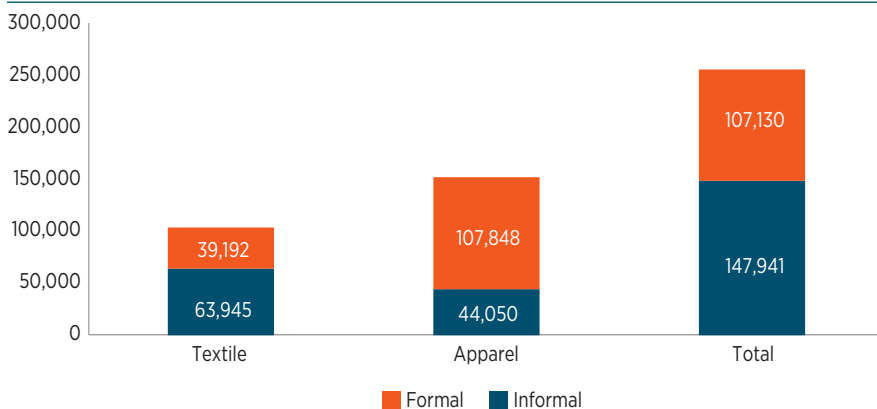
The main clients of yarn producers are companies that produce knitted and flat fabrics. There are around 500 knitted fabric producers, mostly small and medium-sized enterprises (SMEs), with around 10 large companies. They have some natural protection because of product differentiation and timing demands from seasonal and fashion changes. A large majority (95 percent) of imported knitted fabrics are synthetic, mostly from China.

In the third stage, fabrics are used to produce apparel. Clothing production takes place during this stage, which has the highest labor intensity and is the most atomized stage. The most labor-intensive garment products (coats, suits, and jackets) are those with the highest share of imports. Other textiles include both bath and kitchen towels, sheets, and linens, among others.

The value chain is completed with large retailers such as Zara, Falabella, and Walmart. These are the main importers, along with supermarkets and international firms such as Adidas and Nike. This group also includes local apparel firms that make much of their products abroad, like Rapsodia and Cheeky.

¹⁰ See the Ministry of Planning's 2016 *Plan Productivo Nacional*.

Figure 2.3
Total Employment Estimate in the Textile and Apparel Industries in Argentina, 2017



Source: Comisión Nacional de Comercio Exterior based on information from the Observatorio de Empleo y Dinámica Empresarial/Ministerio de Trabajo, Empleo y Seguridad Social.

One important motivation of the government to liberalize this segment was the high domestic prices of apparel. According to estimates by the CNCE, in 2018 a basic wardrobe cost US\$1,790 in Argentina. The average in Latin America was US\$1,200. Price gaps were particularly large in sweaters and coats.¹¹

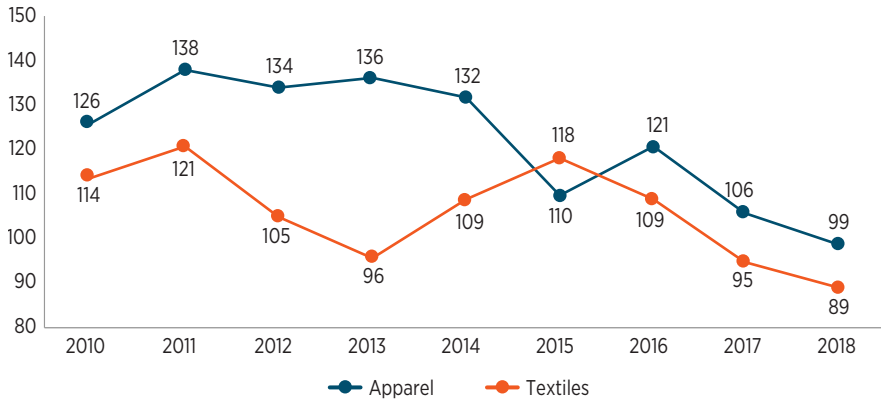
The level of employment at risk was the primary motivation to keep the sector overall protected. By the end of 2017, according to official estimates, the textile and apparel segments employed 255,000 workers,¹² 58 percent of whom were formal and 42 percent informal (Figure 2.3). Informality reached a peak of 71 percent in the apparel segment, which accounted for 60 percent of total employment. This figure almost doubled the share of informality in the textile segment.

2.2.2. Evolution of Production and Imports

Production and employment in the textile industry fell significantly between 2016 and 2018 because of a combination of a sharp contraction of domestic consumption and an increase in imports. The accumulated decline in the production volume of both textiles and apparel was 18 percent (Figure 2.4). As a result, capacity utilization bottomed out in February 2018 to a level of 48.3 percent.

¹¹ Calculations based on data from the e-commerce platform Linio.

¹² Business associations usually state that total employment is 450,000.

Figure 2.4**Textile and Apparel Production, Physical Volume Index, 2010:Q1–2018:Q1 (2004 = 100)**

Source: *Monitor de la Economía Real*, September 2018, Ministry of Production.

During this same period (2015–2017), import values increased 9 percent, with heterogeneity by segment (Figure 2.5). The clothing and other apparel segments were well above the average, with accumulated growth of 63 percent (the largest increase economy-wide) and 46 percent, respectively. By contrast, because of the sharp decline in apparel production, imports of fabrics and other textiles dropped by 4 percent, while that of fibers and yarns fell by 20 percent. Hence, local firms were negatively affected by both a smaller domestic market and a larger import share. In the clothing segment, the share of imports over domestic consumption doubled from 3 to 6 percent, while for fabrics it increased from 15 to 19 percent (Alfie and Tavosnaska 2018).

2.2.3. The Political Economy of Trade Policy in the Textile and Apparel Industry

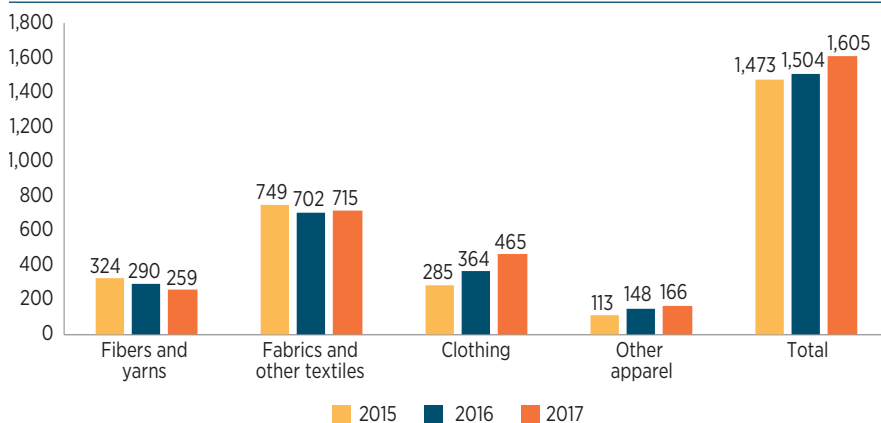
Trade Policy Strategy: The Use of Non-Automatic Licenses as a Tool for Protection

Despite imports increasing sharply, during the *Cambiamos* administration most of the instruments protecting the textile and apparel industries remained in place. The CET levels were maintained: 26 percent on fabrics, 35 percent on apparel, and 14 to 35 percent on other textiles.

The SIMI system—which replaced the DJAI—established non-automatic licenses on 1,665 tariff lines. A total of 633 tariff lines corresponded to textiles

Figure 2.5

Import Value, 2015–2017 (including cost, insurance, and freight; in millions of U.S. dollars)



Source: Comisión Nacional de Comercio Exterior based on information from Customs.

and apparel segments. The sector's main business associations—Pro-Tejer,¹³ *Federación de Industrias Textiles Argentinas*, and *Cámara Industrial Argentina de la Indumentaria*—took part in defining the tariff lines to be subject to non-automatic licenses under the new scheme. The negotiation between the government and the business associations began before the new administration took office,¹⁴ since the former government had already committed to remove the DJAIs.

The textile industry, considered one of the “sensitive sectors” to be preserved,¹⁵ accounted for over 44 percent of the protected products. In fact, the number of tariff lines protected with NALs was greater than those protected under the DJAI regime. The decision was celebrated by the industry, as it dispelled fears about the adoption of an aggressive trade-opening strategy.¹⁶

However, just a few months later, the business associations raised concerns about a surge in garment imports. This increase was linked to a large number of licenses that were pending under the DJAI system but had been

¹³ Technically, Pro-Tejer is not a business association but rather a nongovernmental organization.

¹⁴ The leaders of the business associations stated that they held conversations with the three main candidates before the elections in October 2015. See Carlos Manzoni, “Claudio Drescher: ‘Estoy convencido de que la moda ha muerto,’” September 14, 2015; and Hernán Seara, “Pro Textil 2015: Convención Textil Anual Argentina,” *Textiles Panamericanos*, February 2, 2016.

¹⁵ Resolution 5/2015, Ministry of Production, December 22, 2015.

¹⁶ “El Gobierno mantiene la protección industrial,” *La Nación*, December 24, 2015.

authorized in response to pressures by importers and retailers.¹⁷ Moreover, the SIMI was much more permissive than the DJAI system, which probably contributed to the import increase.

In January 2018, the Secretary of Commerce removed non-automatic licenses on 314 tariff lines, including cotton yarn, which had experienced declining imports because of sluggish demand downstream. Over the course of the year, protectionist pressures relaxed as the Argentine peso devalued. By October 2018 tariff lines applied on textiles and apparel represented 53 percent of the 1,194 NALs that remained in force.

In Search of Dialogue: Consensus and Transformation Initiatives

In April 2016, the Ministry of Production called in the key actors in the value chain to discuss changes in the regulation of the industry. But public participation was kept at a low political level. The private sector interpreted this as a sign of a lack of commitment from the government and a “distraction strategy” to gain time while advancing with the liberalization.

In April 2017, in the context of sluggish demand, job suspensions, and surging imports, the government and business and union representatives of the textile, apparel, and footwear industries agreed to launch a “roundtable for dialogue.” This time, the government was represented by the Ministries of Production, Labor, and Treasury. The agenda was organized around four priority issues: (1) consumption stimulus; (2) employment protection; (3) the drafting of a bill to foster the formalization of precarious jobs; and (4) improvement of export competitiveness of domestic industry.

The government addressed some of these issues early on. First, it established a fund to finance the consumption of domestic products in three to six interest-free installments. Second, it created an “express” facility under the Productive Recovery Program (*Programa de Recuperación Productiva - REPRO*). This program subsidized employment up to a minimum wage for up to one year. Applicant firms had to prove they were in a critical situation, present a plan for recovery (not binding in practice), and commit not to fire personal. Third, it raised export drawbacks from 6 to 8 percent.

In November 2018, the government approved a demand of the industry by decree: a sector-specific reduction in employer contributions. In addition, it announced measures to stimulate consumption by establishing a “fashion week” with credit facilities.¹⁸

¹⁷ “Importaciones: un fantasma que asusta, pero no muere,” *La Nación*, July 24, 2016; and “Industriales negocian cupos con el Gobierno para regular importaciones el año que viene,” *El Cronista*, September 8, 2016.

¹⁸ See Infobae, November 22, 2018.

The Ministry of Production insisted that firms apply to the PNTF, which provided generous unemployment insurance to laid-off workers, as well as technical and financial assistance to restructure uncompetitive firms and reorient their activities (Mesquita Moreira and Stein 2019). At the same time, the PNTF offered employment and investment subsidies to help place displaced workers in other “dynamic” firms with competitive potential. By October 2018, 10 firms from the textile and apparel value chain were receiving benefits from the PNTF as “transformation” firms, and a similar number were under evaluation. However, many firms thought the program was not adequate to address the problems of the industry given the economic contraction it was going through.

Geographical Distribution of Employment and Electoral Incentives

As seen above, in 2017 the textile value chain in Argentina employed 250,000 people—accounting for 2.1 percent of total national employment—and 58 percent of those employed in the sector were informal (Figure 2.3). Over two-thirds of textile and apparel jobs are in the electorally sensitive area of Metropolitan Buenos Aires, which includes the city of Buenos Aires and its suburbs.¹⁹ The industry accounts for nearly 4 percent of private formal workers in the area, and a much higher proportion of informal workers. In the suburbs, the textile industry is concentrated in the electoral third section of the province of Buenos Aires. This area usually has the highest unemployment rates in the country and has 4.5 million registered voters, representing 15 percent of the national electorate.²⁰

The rest of the textile jobs were distributed among the less developed provinces of the North West and North East. Most of the firms in these provinces benefited from special industrial promotion regimes dating back to the 1970s. According to the Ministry of Production, the industry employed between 20 and 30 percent of workers in these provinces, which have few other dynamic sectors with sufficient capacity to absorb displaced textile sector workers.²¹

Between the first quarter of 2016 and the first quarter of 2017, in the context of a stagnant economy and increasing textile and apparel imports, the textile value chain in the suburbs of Buenos Aires suffered a decline in formal employment of 3.9 percent. In some provinces in the North West and

¹⁹ Observatorio de Empleo y Dinámica Empresarial/Ministerio de Trabajo, Empleo y Seguridad Social.

²⁰ According to the Junta Electoral de la Provincia de Buenos Aires.

²¹ Not-for-attribution interview with an official from the Ministry of Production.

North East, the decline was much larger, particularly in Tucumán, where it reached 18.2 percent.²²

Sources of Influence of Import-Competing Sectors

Another factor explaining trade policy outcomes in this industry is the influence of business organizations representing the textile value chain, particularly Pro-Tejer. This organization is effective in maintaining the cohesion of the industry by promoting intra-value chain coordination and cooperation mechanisms. After the economic turmoil experienced by the country in the early 2000s, the founders of Pro-Tejer—mainly producers of yarns and fabrics—understood that for them to survive they had to protect downstream apparel and design firms, which they characterized as small enterprises with no voice in policymaking. In this sense, their strategy involved achieving cohesion of the different segments of the industry and creating a single voice to project their concerns to society and the government.²³ This comprehensive view of the value chain was a clear departure from traditional business associations in Argentina.

Pro-Tejer had robust technical expertise, which enhanced the effectiveness of lobbying by legitimizing business demands. It was effectively used to frame business interests as congruent with the country's development goals (Fairfield 2015). The organization relied greatly on media access. The strategy to influence policymaking consisted of shifting public discourse about the textile sector. Pro-Tejer financed and organized media and other high-profile events with officials and generated statistical information about the relevance of the sector. It made efforts to change the prevalent image of an inefficient industry and re-affirm its productive capacity, competitive advantages, and value-added contributions. Another goal was to re-legitimize demands for protection and reject “indiscriminate imports” by pointing to the sector's contribution to employment and economic activity (Bisang et al. 2014).

According to officials interviewed for this chapter, Pro-Tejer's influence on public opinion regarding the textile sector contributed to restricting the scope for trade liberalization by increasing the political costs of negatively affecting the sector. Although officials' perceptions and diagnoses about the sector probably remained unchanged, Pro-Tejer's activism might have contributed to influencing the terms of the public debate and defining policy options considered appropriate.

²² Observatorio de Empleo y Dinámica Empresarial/Ministerio de Trabajo, Empleo y Seguridad Social.

²³ Interview with Teddy Karagozian, August 2018.

2.3. Case Study 2: The Flat Steel Industry

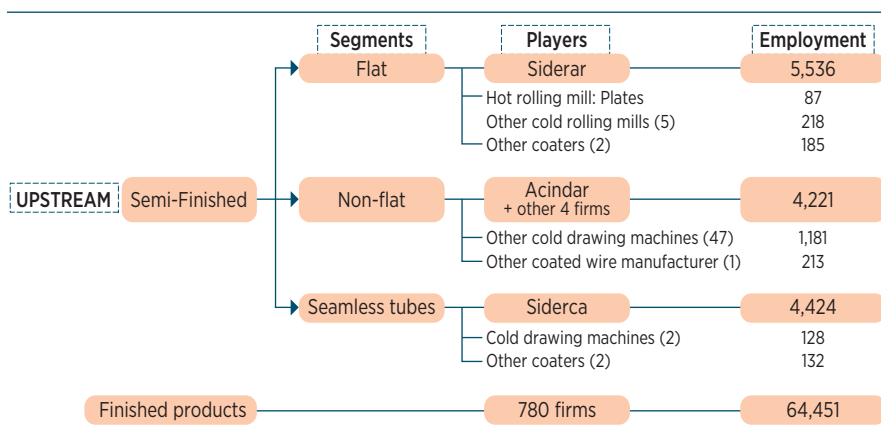
2.3.1. Brief Description of the Industry

The steel industry produces basic inputs for a wide range of manufacturing activities. This places it at the core of many manufacturing value chains of the economy. According to estimates, the price gap between imported and domestically produced flat steel products ranged between 25 and 34 percent in 2018. Due to the industry’s significant influence on the competitiveness of the economy, the Macri administration focused a great deal of effort on lowering the domestic price of steel. One of the primary tools to advance this agenda was the removal of trade barriers.

The upstream segment—that is, steel semi-finished products—can be divided into three sub-segments: flat steel, non-flat steel, and seamless tubes. Together they account for over 14,000 jobs in Argentina (Figure 2.6). In 2018, on the downstream segment of the chain—that is, finished products—there were around 780 firms employing 64,500 workers. This included the automotive, construction, agricultural machinery, and white line appliances industries, among others. Although most final users were formally organized in sectoral business associations, the interaction among these associations was rather limited.

The value chain shows a high level of concentration in the upstream segment with a single dominant firm in each sub-segment: Tenaris in seamless tubes;

Figure 2.6
Structure of the Steel Value Chain



Source: Comisión Nacional de Comercio Exterior.

Note: Ternium Siderar and Tenaris are part of the Techint Group.

Acindar in non-flat steel;²⁴ and Ternium Siderar in flat steel, which is the case study for this chapter.²⁵ At the time of writing, Ternium Siderar had a production capacity of 3,200 tons of crude steel (slabs). The company was operating at 77 percent of installed capacity and accounted for at least 90 percent of domestic production in each product line. Import penetration of flat steel products remained at an average level of 14 percent between 2002 and 2016. This represented a fall from the average of 23 percent between 1994 and 2001. Flat steel imports remained highly concentrated in a few hands, with Ternium Siderar the largest importer, accounting for 44 percent of total imports. The rest of imports were distributed among a few service centers and distributors. In the case of the distributors, many of them had exclusivity contracts with Ternium Siderar, which set conditions on the types of products that could be commercialized.

2.3.2. The Political Economy of Trade Policy in the Flat Steel Industry

Trade Policy Strategy

Liberalization of the steel industry—together with other basic inputs, such as aluminum and plastics—was one of the main targets of the trade policy strategy of the Macri administration. The government considered that the protection offered by the CET to basic inputs was excessive—in the case of steel, 12 percent for most tariff lines. However, although the government made progress in its liberalization agenda, some domestic and external factors hindered the advance of the plan.

Non-Automatic Licenses

The most significant progress on the government's liberalization objectives was achieved with NALs. With the adoption of the SIMI in 2016, the government implemented NALs on 29 of over 55 tariff lines of steel without alloy products. This accounted for 95 percent of the total imports of these products (US\$186.6 million) (Figure 2.7). In January 2018, the Secretary of Commerce promulgated Resolution 5-E/2018, which removed NALs affecting 314 tariff lines, including all those imposed on flat steel products.

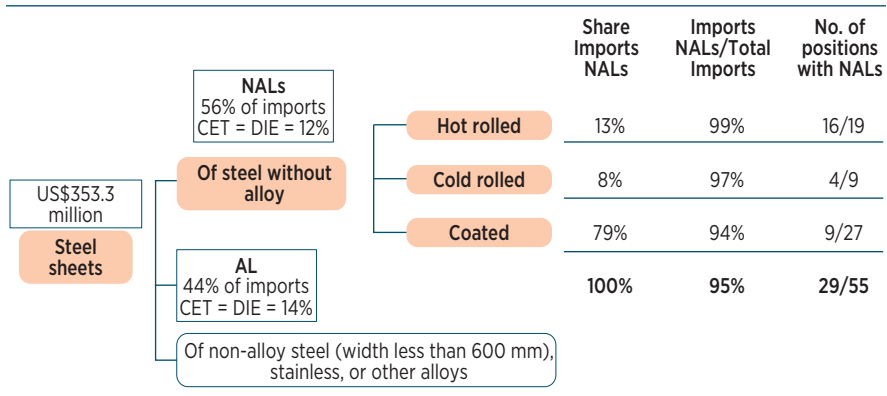
Tariffs

When the Macri administration took power in December 2015, the MERCOSUR CET applied to flat steel products remained unchanged at a level between

²⁴ Currently, Acindar is being investigated by the National Commission of Defense of Competition of Argentina for alleged anti-competitive practices and abuse of dominant power.

²⁵ Tenaris Siderar is part of the holding group Techint.

Figure 2.7
Non-Automatic Licenses in Flat Steel Products, 2016



Source: Comisión Nacional de Comercio Exterior.
 Note: AL: automatic import license; CET: Common External Tariff (MERCOSUR); DIE: Import Right Extra-MERCOSUR; NAL: non-automatic import licenses (MERCOSUR).

12 and 14 percent. According to both officials and industry representatives, the Secretary of Commerce was about to remove or lower these tariffs in March 2018. However, the initiative was canceled when the U.S. government issued Proclamations 9704 and 9705 raising import duties on imports for steel mill (25 percent) and aluminum (10 percent) articles.²⁶ President Macri’s team had to shift its focus from trade liberalization to the negotiation of an exception for Argentina with the United States. The government was not in a position to remove external tariffs when the United States was increasing them. After almost two months of negotiations, Argentina was exempted from the 25 percent tariff. Instead, an import quota of 180,000 tons per year (exempted from the tariff) was established. The quota was based on the average of steel exports during the past three years plus an additional 35 percent.

Technical Regulations

In September 2018, the Secretary of Commerce enacted Resolution 21/2018, a technical regulation framework establishing the essential quality and safety requirements for products used in construction. Among other products, the resolution regulates 36 percent of flat steel tariff positions. The negotiations between the government and the industry on a technical regulation were tough. The leading firms in the industry were the chief promoters of a protectionist

²⁶ See “Trade Remedies,” U.S. Customs and Border Protection website (<https://www.cbp.gov/trade/programs-administration/entry-summary/232-tariffs-aluminum-and-steel>).

technical regulation. They wanted a larger number of products regulated by the norm, the adoption of standards meeting the preferences and capabilities of domestic firms, and the establishment of certification procedures operating under the sphere of influence of the players of the industry.

Sources of Influence of the Lead Firm

The analysis of trade policymaking in the steel industry should take into consideration the power accumulated by the sector leader, crystallized in a wide variety of institutionalized and informal instrumental powers. Institutionally, the leading firm has a powerful presence in the *Unión Industrial Argentina* (UIA) and in the sectoral business association, *Cámara Argentina del Acero*. However, according to interviewees for this chapter, the holding group to which the firm belongs also exercised influence through informal channels. For instance, several former employees have been recruited as civil servants. Some interviewees pointed out that this created a shared vision between the company and areas of the public sector, allowing them to influence the policymaking process. Another channel of influence was through technical expertise. The managers and staff of the group are highly skilled, which boosted the firm's ability to influence the drafting of technical regulations or the investigation of anti-dumping procedures.

Intra-Value-Chain Cooperation and Coercion Mechanisms

As a dominant supplier of an input that is key in a wide variety of downstream manufacturing industries, Ternium Siderar occupies a strategic position and has multiple resources that may be used to align the interests of the sector and curb demands for liberalization. In particular, two main channels through which the firm exerted its influence across the value chain can be identified.

The first one is a "soft" channel, exercised through its participation in the Propymes Program.²⁷ This program, created in December 2002, sought to foster long-term relationships among small and medium-sized suppliers and clients of the Techint group.²⁸ The program provided support and training to improve productivity and to enhance management practices, among other issues. Of particular importance for this chapter is its effort to contribute to "efficient import substitution." Toward this end, the company helped participating firms prepare anti-dumping dossiers to be presented to the CNCE. These services reduced the willingness of firms operating downstream to voice

²⁷ For more information, see <http://www.programapropymes.com>.

²⁸ In 2018, some 850 firms participated in the program.

their discontent about the price charged for flat steel in the domestic market. Rather than seek a reduction in the price of their inputs through lobbying for reduced protection of steel, the support received in anti-dumping cases helped input users reduce the competitive pressures on their own products.

However, there was another mechanism that kept downstream firms from demanding reduced protection for flat steel. Interviewees stressed that even if barriers were reduced, allowing these firms to source cheaper inputs from abroad, they would have to think twice before challenging the dominant supplier. In case of a policy reversal, they would probably have to buy inputs again in the domestic market and would not want to risk having their supplies cut off or operating under uncertain conditions.²⁹

These intra-value-chain mechanisms suggest that trade policy alone may not be an effective mechanism to foster competition. Liberalization may need to be complemented with a competition policy that challenges the dominant power of the domestic market leader. Some interviewees suggested that encouraging the development of service centers and distributors could be a cornerstone of a pro-competitive strategy for basic input products. These intermediaries could provide the same services as the dominant firm and sell steel to final users in small quantities, thus protecting customers from uncompetitive practices.³⁰

2.4. Case Study 3: The Computer Industry

2.4.1. Brief Description of the Industry

After the currency devaluation in 2003, the administration of President Néstor Kirchner implemented certain measures to promote domestic industrial production. In this context, medium-sized firms started assembling computers. Between 2007 and 2015, annual manufacturing outcome averaged about 2.3 million units per year. Until 2016, this production covered around 70 per cent of domestic demand (CAMOCA 2018).

²⁹ Due to the informal nature of these mechanisms, it is difficult to find information about them beyond anecdotal evidence.

³⁰ In a closely related sector, in July 2018 the National Commission for the Defense of Competition of Argentina issued a report regarding the case of non-flat steel products, a market controlled by Acindar AcerlorMittal. The report argues that the “competitive pressure exerted by imports is limited” and concludes that, to a large extent, this is a consequence of the functioning of the distribution network controlled by Acindar. The report is available at https://www.argentina.gob.ar/sites/default/files/investigacion_de_mercado_de_acero_no_plano.pdf. See Delgobbo (2004) for an account of a 1998 antitrust investigation involving the purchase by Siderca of Comesi, a competitor of Siderca in the coated steel sector and a client of Siderca's cold rolled steel.

A defining feature of the computer industry in Argentina is the fragmentation between production on the “continent” and that under the special promotion regime on the island of Tierra del Fuego. Although most electronics production is concentrated in Tierra del Fuego (around 61 percent of total employment in the national electronics industry), computers manufactured on the island only accounted for 26 percent of the units produced nationally between 2011 and 2015. The bulk of production was manufactured in the suburbs of the cities of Buenos Aires, Santa Fé, and Córdoba (CAMOCA 2018).

Firms on the continent were mostly SMEs for which computers represented most of their business. By contrast, firms on the island were part of large diversified business groups producing electronics and home appliances under the special regime.³¹ In 2016, five groups—IATEC-Mirgor, Electronic System, Newsan, Brightstar Fueguina, and BGH—represented 74 percent of electronics production in Tierra del Fuego. Computers represented only 5 percent of this production, with the bulk going to mobile phones (57 percent) and TVs (33 percent).

The fragmentation of production was reproduced in the arena of interest representation. Firms on the continent were represented by the *Cámara Argentina de Multimedia, Ofimática, Comunicaciones y Afines* (CAMOCA), and *Cámara Argentina de Industrias Electrónicas, Electromecánicas y Luminotécnicas* (CADIEEL). Producers in Tierra del Fuego were represented by the *Asociación de Fábricas Argentinas Terminales de Electrónica* (AFARTE), which represents nine large firms with national, international, and mixed capital. The trade union representing electronics production workers is the *Unión Obrera Metalúrgica* (UOM). With approximately 260,000 affiliate members, it is one of the largest and most influential unions in the country, representing workers in steel, aluminum, auto parts, and electronics, among others.

2.4.2. The Political Economy of Trade Policy in the Computer Industry

Background: Protectionism and the “Continent-Island Cleavage”

Until 2015, electronics production in Argentina was protected through import tariffs and the DJAI system. Computers had a 35 percent import tariff. Inputs and accessories were protected as well: cables and printers (35 percent), mice, keypads, code bar readers, motherboards, PC memories, and plotters (12 percent), hard disks (8 percent), and scanners (2 percent).

³¹ Newsan and BGH are the only firms producing both on the island and the continent.

In addition, electronics production was protected by the industrial promotion regime of Tierra del Fuego created in 1972. This regime established exemptions on income taxes and value-added taxes (VAT) and on input import tariffs. The Cristina Kirchner administration extended the special regime until 2023. In addition, her administration enacted Law No. 26.539 in 2009 that removed exemptions to internal taxes and doubled the VAT (from 10.5 to 21 percent) for electronics not produced or assembled in Tierra del Fuego.

This decision sparked tensions between the firms operating on the continent—represented by CAMOCA and CADIEEL—and those on Tierra del Fuego—represented by AFARTE. While the latter celebrated the initiative to protect national production, CAMOCA’s authorities complained that this norm was putting jobs on the continent at risk. The conflict was settled by excluding computers from the law, as demanded by continental producers (Rabinovich 2018).

Trade Policy Strategy: Rapid Removal of Import Tariffs

The computer sector is one of the few examples of a transition from high protection to complete liberalization under the Macri administration. During the 2015 election campaign, *Cambiamos* authorities gave clear signs of discontent with the high prices of electronic consumer goods. Access to better quality and cheaper computers and mobile phones was a demand from its electoral base and a hoped-for consequence of the proposed “intelligent integration to the world.”

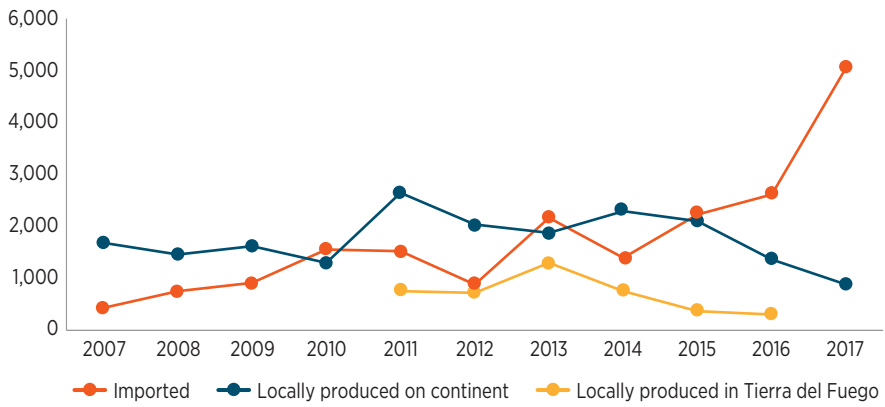
In August 2016, CAMOCA, CADIEEL, and UOM met with the Minister of Production to argue that liberalization would generate significant job losses. They presented an alternative liberalization plan. However, in November 2016, the government announced publicly the total elimination of tariffs on computers and inputs.

After the announcement, CAMOCA and CADIEEL issued strong statements warning that more than 10,000 jobs in the electronics value chain would be lost.³² These statements contrasted with AFARTE’s softer reaction, which estimated that only 500 jobs were at risk on Tierra del Fuego.³³ In their response to the episode, some of AFARTE’s members publicly recognized that computers were not very significant in their portfolios, and that they understood the government’s view.

³² This estimate included not only direct manufacturing computer jobs but also indirect ones from suppliers of the computer industry.

³³ “Tierra del Fuego: entre la reconversión productiva y la clausura lisa y llana,” *Tiempo Argentino*, December 12, 2016.

Figure 2.8
Production and Imports of Computers, 2007–2017 (thousands)



Source: Prepared by the authors based on CAMOCA (2018).

In February 2017, the government removed the 35 percent tariff applied to personal computers, notebooks, and tablets and the 12 percent tariff on computer inputs. The UOM was very active in its opposition. Members protested in the Plaza de Mayo, organized a demonstration at the Ministry of Production, and pressed the *Confederación General del Trabajo* (CGT) to organize a general strike, which took place on April 6, 2017. Despite these protests and the complaints from CAMOCA and CADIEEL, in November 2017 the government removed the non-automatic licenses.

Restructuring of the Industry

As a result of the new trade policy strategy, the share of imports in domestic consumption increased from 31 percent in 2014 to 85 percent in 2017 (Figure 2.8). This led to a loss of 500 jobs on Tierra del Fuego and a sharp reduction in workers on the continent of almost 3,000 jobs.³⁴ According to official estimates from the Ministry of Production, average computer prices in U.S. dollars dropped by 24 percent.³⁵ This fell short of the 50 percent target that had been used by the government to sell the reform to the public.

Most companies on the continent reconverted their business models. They became importers and providers of services. For instance, PC Arts, owner

³⁴ Interviews with representatives of AFARTE, CAMOCA, and CADIEEL.

³⁵ “A un año de la quita de aranceles, se incrementó 47% la venta de computadoras,” *Economía*, April 1, 2018 (<https://www.telam.com.ar/notas/201804/265929-a-un-ano-de-la-quita-de-aranceles-se-incremento-47-la-venta-de-computadoras.html>).

of the Banghó brand, became Dell's "master dealer" for the Argentine market and a wholesale distributor of other leading brands such as Intel, Microsoft, and Lenovo, among others. BGH closed its computer-assembling factory in Tierra del Fuego but kept a factory in the province of Buenos Aires that in 2017 produced notebooks for government programs such as *Conectar Igualdad*. Moreover, it commercialized and distributed the imported brand Vaio.³⁶

Government Tactics

Transformation and Compensation: The Role of PNTP in Reducing Labor Conflict

The government found two ways to alleviate the impact of tariff liberalization. First, it required *Conectar Igualdad* to procure its notebooks from domestic producers. The industry received this decision well. Second, it invited firms to benefit from the PNTP, which was effective in reducing labor conflict after tariff liberalization.³⁷ However, only two firms from the computer sector entered the program—PC Arts on the continent and Informática Fuegoína S.A. on the island. At PC Arts, the dismissal of 183 workers led to a two-day occupation of the factory. The fact that the firm entered the PNTP, which paid displaced workers very generous unemployment insurance, was important for the management of this conflict.

There was consensus among representatives of the public and private sectors, however, that the PNTP was more effective in reducing conflict than in supporting transformation. In addition, in the context of a recession, incorporating workers fired from "transformation" firms into "dynamic" firms was challenging. In the case of PC Arts, only 20 percent of workers who entered the program were successfully incorporated into dynamic firms, and for Informática Fuegoína the reincorporation rate was even lower.³⁸

Consensus: The Tripartite Agreement for Competitiveness and Gradual Liberalization of the Tierra del Fuego Industrial Promotion Regime

While the liberalization of computer production was abrupt and unnegotiated, the reduction of the benefits provided by the special industrial promotion regime was a gradual and negotiated process. The government decided to keep import tariffs on the two most important electronics products of Tierra del Fuego: cell phones and TVs.

³⁶ "'Adaptarse o morir,' la consigna que llevó a Banghó y a Positivo BGH a un drástico cambio de foco," *IProfesional*, September 13, 2017.

³⁷ Not for attribution interviews with officials from the Ministry of Production and the Ministry of Labor.

³⁸ Not for attribution interview with a government official.

The tripartite agreement signed among the business association, trade unions, and the national and provincial governments was one of the most important episodes in this process. On November 13, 2017, the national and provincial governments, AFARTE, and UOM signed an agreement designed to “increase competitiveness and reduce prices.” The agreement included two main commitments. First, it eliminated internal taxes for all electronics produced on Tierra del Fuego and gradually reduced internal taxes on electronics imported or produced on the continent (from 10.5 percent in 2018 to 0 percent in 2023). This equated production conditions with the industrial promotion regime (Decreto 979). Second, it froze wages for two years, with the commitment of employers not to fire workers during that period.

While the reduction of internal taxes on the continent was a significant blow to the special promotion regime, this negotiated solution was much more gradual than the government’s first proposal. The gradual approach softened resistance from AFARTE. Regarding the agreement on employment conditions, freezing wages in a context of high inflation (35 percent in 2016, 26 percent in 2017, and about 40 percent in 2018) entailed a large reduction in real wages. The general secretary of the UOM Río Grande affiliate said that the alternative was layoffs.³⁹

Some weeks later, on November 30, 2017, the Ministry of Production eliminated NALs for all electronics products, including computers and cell phones (Resolución 898). The purpose was to increase competition and reduce prices, in line with the agreement signed weeks earlier with sectoral business associations and trade unions. Since most computer factories had already closed production with the elimination of tariffs, this measure had no effect on the computer industry.

In October 2018, the government signed a decree (Decreto 864/18) eliminating import tariffs for over 180 technological inputs and products, including modems and routers and cell phone and TV components (in Tierra del Fuego, the tariff was already 0 percent). The measure aimed to lower the price of information technology inputs not produced in the country.⁴⁰ AFARTE’s president expressed concerns that this would encourage the assembly of cell phones on the continent, thus negatively affecting firms on Tierra del Fuego, where large investments had been made.⁴¹ AFARTE’s representatives met with

³⁹ “Electrónicas fueguinas acuerdan congelar salarios por 2 años pero sin despidos,” *Ámbito Financiero*, November 10, 2017.

⁴⁰ “Bajan o eliminan aranceles de importación a productos de informática y telecomunicaciones,” *Télam*, September 7, 2018.

⁴¹ “Electrónicas: Afarte denuncia que el decreto 864 propicia la radicación de ‘armaduras’ en el continente,” Radio Fueguina, October 10, 2018.

the Minister of Production and focused on four specific tariff lines regarding components for cell phone and TV production. They argued that the inclusion of these products in the decree would have a negative impact on production and employment on the island. As a result, the minister revised the decree and excluded the tariff lines questioned by AFARTE.⁴² Although many special regime benefits were reduced, cell phones, which represent more than half of electronics consumption goods produced on the island, remained protected by a 16 percent import tariff.

Sources of Influence: Institutional Fragmentation and Low Structural Power

Several structural factors can be identified that help to understand why resistance from the private sector to liberalization of the computer industry was weak: (1) lack of cohesion because of economic and institutional fragmentation; (2) low structural power, measured in terms of value added and employment; (3) the absence of a concentrated input provider with protectionist interests; and (4) lack of legitimacy among experts and the general public because of high prices and subsidies.

The fragmentation between the continent and the special promotion regime on Tierra del Fuego generated diverging interests and a lack of cohesion among computer producers in their response to liberalization. The defense of the special promotion regime was the primary interest of producers on Tierra del Fuego. This inevitably generated tensions with continental producers. Given the government's stated intention to reduce or put an end to the benefits of the special regime, AFARTE took a defensive strategy. The priority was to preserve the benefits and tariff protection related to cell phones and TVs, while avoiding conflict with the government over computers. As stated by one of the business representatives interviewed for this chapter, the production of computers—representing just 6 percent of electronics production on the island—was “handed over” to the government in exchange for keeping the benefits for the island's most important production lines. This allowed firms to reallocate some of their employees in computer product lines to other business segments.

Continental producers were medium-sized firms with much less economic power than the diversified business groups on the island. Total sales of the largest firm manufacturing computers on the continent, PC Arts, were less than 10 percent of that of the largest firms on the island, such as Grupo

⁴² “Marcha atrás del gobierno con un decreto que afecta la producción de celulares y televisores,” *IProfesional*, October 6, 2018.

Mirgor or Brightstar Fueguina. The degree to which the government advanced was correlated with the structural power of each group.

Furthermore, unlike the case of steel, there was no concentrated input supplier with protectionist interests that could coordinate the value chain. In the electronics industry, most inputs were imported or produced by SMEs.

The most recent episode, in which the government revised the removal of import tariffs for cell phone components on the continent, stands in sharp contrast to the process of removal of computer import tariffs. AFARTE immediately met with the Minister of Production. After listening to the association's warning about the potential impact on activity on Tierra del Fuego, the government revised the contentious tariff lines. In contrast, representatives of the computer industry on the continent pointed out that they were not received by the Secretary of Industry to discuss sector policies. In addition, they complained about the differential treatment of computers and cell phones. This suggests that, as expressed in the literature, structural power can increase access to policymaking spaces (instrumental power).⁴³

While in the textile industry government officials expressed concerns over the social and electoral impact of layoffs and unemployment, this was not the case for the computer industry. Total employment was not only low—about 3,000 direct jobs, according to the sectoral associations—but geographically dispersed among different provinces (Buenos Aires, Tierra del Fuego, Córdoba, and Santa Fé). Although the closing of factories generated significant labor conflicts, government officials had the resources to moderate them. This included subsidies from the PNTP and licenses of *Conectar Igualdad*.

A remaining question is why the government liberalized computers abruptly but protected cell phones. Beyond the relative strength of the two groups, the geographical concentration of jobs is another factor that helps understand this. While not large at the national level, cell phone production accounts for a very significant share of industrial employment on Tierra del Fuego.⁴⁴ Closing cell phone factories would have had a significant social impact at the local level.

⁴³ In an interview with the press, the director of PC Arts said the government promised cheaper computers and cell phones, but did not make progress on cell phones because of pressure from the industry. See "'Adaptarse o morir,' la consigna que llevó a Banghó y a Positivo BGH a un drástico cambio de foco," *IProfesional*, September 13, 2017.

⁴⁴ With 13,000 jobs, the electronics industry represented 85 percent of industrial employment on the island. The cell phone industry was one of the most important employment sources, and represented 57 percent of electronics production.

2.5. Discussion

Trade policy was one of the cornerstones of the *Cambiamos* government's ambitious reform agenda after taking office in December 2015. This chapter has analyzed the factors explaining the scope and pace of import liberalization during the Macri administration, comparing the trade policymaking process and outcomes across three industrial sectors: textiles and apparel, flat steel, and computers. The analysis focused on (1) the determinants of the government's trade liberalization strategy; (2) the tactics adopted by the government to advance the liberalization process, including compensation, transformation, and consensus mechanisms; and (3) the sources of influence of import-competing sectors, including the instrumental and structural power of firms as well as intra-value-chain coordination and coercion mechanisms.

2.5.1. Determinants of the Government's Trade Liberalization Strategy

The scope and pace of liberalization across different sectors can be explained by sectoral characteristics that guided the government's strategy. Low competitiveness of domestic producers, relatively few jobs at risk, and a high impact on downstream sectors are characteristics shared by both of the liberalized sectors (i.e., computers and synthetic yarns). On the other hand, "sensitive" sectors—characterized by high employment at risk and low impact on downstream sectors—in essence maintained the trade policy instruments inherited from the previous administration (with the exemption of NALs). For basic inputs such as steel, a product with a significant impact on a wide range of downstream sectors, the liberalization strategy proved not to be as aggressive as in computers and synthetic yarns. This can be partly explained by the fact that the dominant producer is relatively more efficient than in those latter industries. Moreover, the steel industry's share in total employment is significantly larger than that of the other industries.

The structural power of import-competing sectors was an important determinant of the government trade liberalization strategy. The scope and pace of the liberalization agenda incorporated considerations of the activity and employment levels at risk, and their possible impact on voter sentiment. This is consistent with business politics theories that argue that structural power generally plays a role as a signaling device in the agenda-setting stage of the policy process—the prospect of disinvestment can help to define or rule out alternatives, but this signal cannot tell governments what to do (Hacker and Pierson 2002, 282).

The findings in this chapter are in line with those of Leiras and Soltz (2006), who found that in the early 1990s in Argentina, “politically influential” groups producing intermediate goods (e.g., steel and paper), along with “politically salient” sectors producing labor-intensive final consumption goods (e.g., textiles, footwear, and toys), managed to maintain high levels of protection.

Policymakers determined that the closing of medium-sized computer factories in the suburbs of large affluent cities would not significantly affect the level of activity and employment—or at least not at a level that exceeded the benefits associated with better access to technology (and thus increased productivity) in downstream sectors and lower prices for consumers. Warnings from sectoral associations and trade unions about the negative effects of liberalization were ignored. The computer sector lacked social legitimacy because of its high prices, high import content, and large subsidies. The government therefore perceived that trade opening would not have a negative impact on economic activity, social stability, or votes.

The fact that the government did not liberalize other electronics goods (e.g., cell phones and TVs) affected by the same weaknesses as computers helps shed light on the importance of structural power for the scope and pace of liberalization. The structural power of producers on the continent—which specialized in the production of computers—was much lower than the structural power of producers on the island of Tierra del Fuego, which was much more diversified within the special promotional regime. Operating in an isolated and scarcely diversified geographical area with geopolitical significance was a source of structural power for producers on Tierra del Fuego that forced the government to curb its reformist push. It is also clear from the interviews conducted for this chapter that structurally powerful firms had more access to policymaking spaces (i.e., they had more instrumental power) than structurally weak ones, a finding consistent with recent literature on business influence that stresses how these two sources of power reinforce each other (Fairfield 2015).

The case of the textile and apparel industry, in which the scope and pace of the liberalization was more limited, strengthens the relevance of structural power in setting the government’s agenda. In this case, influence largely emanated from the large number of people employed across the value chain (250,000 jobs, from yarns to garment design). Furthermore, these jobs were mainly located in economically disadvantaged regions in the North East and North West provinces, with little opportunity for job reallocation, and in the suburbs of the province of Buenos Aires, a strategic district for the political aspirations of *Cambiamos*. In line with Rodrik (1995), this chapter has argued that employment generated by the textile value chain, its geographical distribution, and its vulnerability to import competition help explain why the

government maintained protection for apparel. These factors are important because they affect the government's electoral incentives, as well as broader objectives such as achieving social stability.

The case of flat steel introduces nuances in the analysis of structural power by showing how it may vary in accordance with changes in domestic and international conditions. Ternium Siderar, the main flat steel producer, is part of the largest business group in Argentina. It is a multinational company employing over 55,000 people (20,000 in Argentina) with operations across several sectors at a worldwide level. Despite structural power conditions, until early 2018 the government was determined to advance its liberalization of the industry. With the objective of lowering the price of inputs affecting downstream sectors' competitiveness, NALs were removed and tariffs were about to be eliminated. However, changes at the domestic and external levels improved the bargaining position of the industry and contributed to restraining the opening push. On the international side, the U.S. decision to raise barriers on steel imports in March 2018 shifted the focus of the government. Rather than lowering tariffs, the main priority became to negotiate access of local steel products to the U.S. market. Domestically, prospects for reducing trade barriers were further undermined by the context of a stagnant economy, with increasing unemployment.

2.5.2. Tactics: Limitations Faced by the Government in Building Pro-Liberalization Coalitions

The three coalition-building mechanisms examined in this chapter—compensation, transformation, and consensus—had a relatively small effect on minimizing resistance to liberalization from potential losers or on gaining support from potential winners. The reasons for that are multifold and specific for each case.

The PNTP was an innovative instrument design to relocate factors of production toward firms and sectors with higher competitive potential. It proved especially effective in mitigating labor conflicts in “transformation” firms. However, it did so only on a very small scale, being labeled by officials as a “boutique” initiative facing challenges for escalation. Only 1,500 workers and 100 firms were approved for and benefited from the program. To have an aggregate impact, the program's scale should have been increased significantly. Challenges identified by government officials and business representatives related to skill specificity and geographical location considerations that complicated worker reallocation. Also, evaluations of the program pointed to the weakness of the initiatives in training displaced workers. Finally, an important limitation faced by the PNTP was the lack of enough dynamic

firms in a stagnant economic context characterized by systematic loss of industrial employment.

As for consensus mechanisms, the format of the first dialogue roundtables held by the government in 2016 and 2017 proved to be ineffective in building trust among the actors. The low political priority given by the government to this initiative partly accounts for the poor results. To some extent, the position of the government reflected the authorities' initial preference for "horizontal" policies addressing market failures and its reluctance to advance a sectoral agenda to guide the transformation of the industries. This changed with a new round of the dialogue roundtables more closely patterned after the Peruvian *mesas ejecutivas*. Launched in the second semester of 2018, this second group of roundtables was much more successful (Obaya and Stein 2021).

By contrast, the Tripartite Agreement for Competitiveness reached with electronics producers on Tierra del Fuego in November 2017 paved the way for gradual liberalization. It was important for creating some room for public-private deliberation and negotiation with the explicit aim of preparing for an in-depth institutional transition. One difference with the textile dialogue roundtables is that both firms and jobs in Tierra del Fuego were facing a concrete threat, that is, the end of the special promotion regime in 2023. Also, the government had shown determination to move forward with reduction of trade protection. The liberalization of the computer sector made this threat credible. In a context in which they had much to lose, business and labor actors had incentives to negotiate.

In contrast to the experience of the structural reforms in the 1990s, *Cambiamos* made scarce use of compensation mechanisms to build support coalitions. During the 1990s the large business groups that dominated industrial sectors like steel, automobiles, oil, and cement were negatively affected by liberal economic reforms. The government was able to head off their opposition and gain their support through "market-share compensation" mechanisms, that is, by directly awarding state assets during the privatization of telecommunications and utilities, and through partial deregulation (Etchemendy 2011).

2.5.3. Sources of Influence of Import-Competing Sectors: Intra-Value-Chain Coordination and Coercion Mechanisms

The cases of flat steel, textiles, and apparel show that the capacity to coordinate the value chain is a relevant source of power to limit the scope and pace of liberalization. Large and concentrated potential losers from trade liberalization, occupying upstream positions within the chain, had the capacity to constrain demands for liberalization from subordinated final users.

As a result, in the absence of an organized import-demanding coalition, the government had less leverage to liberalize. Many officials complained that users of protected products did not demand reductions in tariffs (at least not publicly). As discussed above, value-chain control may be exerted through both soft and tough mechanisms. As for soft mechanisms, the provision of services from the value chain leader is the primary mechanism to keep discipline among final users. In the case of steel, this was channeled through Techint's Propymes Program for SMEs. In the case of textiles it crystallized, for instance, in the articulation of a common negotiation position collectively demanding protection for the entire chain within Pro-Tejer. Tough mechanisms relate to the capacity of dominant firms to discipline potential importers and reduce incentives for downstream clients to voice their liberalization demands through price discrimination and non-competitive practices.

The question arises as to why firms using protected inputs intensively did not import them or lobby for liberalization. In the steel value chain, the scale of production usually does not justify imports by most individual firms. Furthermore, they lack the capabilities to adapt the imported basic products to their specific needs (e.g., to cut and mold the steel sheets). Moreover, lean production requires geographical proximity between users and suppliers. As argued by some interviewees for this chapter, some of these problems could be solved through the establishment of large service centers specializing in importing steel and providing technical services to final users. However, such actors did not proliferate or were controlled by Ternium Siderar. Some interviewees suggested that their absence could be linked to practices by the dominant firm coupled with uncertainty about the sustainability of the liberalization policy—that is, buyers may have feared being cut off from supplies in case of policy reversals. Others questioned whether there would be a profitable business opportunity for service centers independent of such practices. The reasons why large service centers did not proliferate deserves further research. Still, this discussion sheds light on the potential limitations of trade liberalization strategies and stresses the importance of complementary antitrust policies in the case of sectors with dominant input suppliers.

Annex 2.1. List of Interviews

October 7, 2018: Not for attribution interview with official 1 from the Ministry of Production.

October 24, 2018: Ariel Schale, Executive Director, Fundación Pro-Tejer.

August 1, 2018: Teddy Karagozian, co-founder of Pro-Tejer.

August 2, 2018: Patricia Marino, Textile Division, Instituto Nacional de Tecnología Industrial (INTI).

August 6, 2018: David Uriburu, Director of Institutional Relations, Techint.

August 7, 2018: Jose de Mendiguren, Vice-President, Cámara Industrial Argentina de la Indumentaria (CIAI).

August 9, 2018: Not for attribution interview with official 2 from the Ministry of Production.

August 10, 2018: Not for attribution interview with official 3 from the Ministry of Production.

August 15, 2018: Claudio Drescher, President, Cámara Industrial Argentina de la Indumentaria (CIAI).

August 15, 2018: Carlos Alberto Vaccaro, Executive Director, Cámara Argentina del Acero.

August 17, 2018: Diego Coatz, Chief Economist, Unión Industrial Argentina (UIA).

August 30, 2018: Not for attribution interview with official 4 from the Ministry of Production.

September 17, 2018: Rubén Oscar García, Cámara Importadores de la República Argentina (CIRA).

October 1, 2018: Federico Hellmeyer, President, Asociación de Fábricas Argentinas Terminales de Electrónica (AFARTE).

October 3, 2018: Carlos Scimone, Executive Director, Cámara Argentina de Multimedia, Ofimática, Comunicaciones y AFines (CAMOCA).

October 5, 2018: Not for attribution interview with representative from the agricultural machinery sector.

October 10, 2018: Not for attribution interview with manager from a group operating in Tierra del Fuego.

November 10, 2018: Not for attribution interview with representative from the computer sector.