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Trade Policy Review Body

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**TRADE POLICY REVIEW**

**Report by**

**ARGENTINA**

Pursuant to the Agreement Establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), the policy statement by Argentina is attached.

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Note: This report is subject to restricted circulation and press embargo until the end of the first session of the meeting of the Trade Policy Review Body on Argentina.



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## **I. INTRODUCTION**

1. Since its last Trade Policy Review, the Argentine Republic has expanded the model of economic growth with social inclusion introduced in 2003.
2. Despite an adverse international background, defined by the outbreak of the international crisis in 2008, the policies implemented during the review period resulted in high rates of economic growth, a sustainable and genuine improvement in competitiveness, and a favourable trend in all the social indicators.
3. The first part of this report contains a description of the macroeconomic performance of the growth-with-social-inclusion model. In this section the country's general economic situation is reviewed and the main production, financial and fiscal aspects, trends in foreign trade, trade promotion and employment policies and the performance of the social indicators are all described.
4. The trends in the agricultural and manufacturing sectors are then outlined, with special emphasis on the creation of new institutions and the policies adopted to boost their growth.
5. The third part of the report is devoted to foreign trade policy. In this section Argentina's multilateral and regional activities are described and, in particular, its participation in the G-20 and its active role within the framework of the WTO's multilateral trading system and the Doha Development Round negotiations. At the same time, an account is given of Argentina's commitment and contribution to regional integration processes, both within MERCOSUR and in connection with the efforts to establish new integration areas such as the Union of South American Nations (UNASUR) and, in Latin America and the Caribbean, the Community of Latin American and Caribbean States (CELAC).
6. Finally, the conclusions of the report are presented.

## **II. ECONOMIC ENVIRONMENT AND COMPETITIVENESS**

### **(1) INTRODUCTION**

7. The policies pursued since 2003 have been responsible for unprecedented economic growth and job creation, while achieving significant improvements in all the social indicators and reversing the process of de-industrialization that the country had been experiencing since 1976.
8. The general approach was characterized by a consistent macroeconomic policy sustained by the growth of foreign demand and the domestic market; a dynamic trade policy; strong development of industry and production; and an income policy that promoted social inclusion.
9. This combination of measures, which required the State to play an active role in the economy - in complete contrast to the policy that prevailed in the 1990s - resulted in a cycle of growth and an improvement in the quality of life on a scale never previously experienced.
10. It should be noted that these results were achieved within an adverse international context created by the economic crisis that erupted in the developed countries in 2008.
11. The National State has assumed a strategic role in defining the common objectives and coordinating the activities of the public and private players, with a view to strengthening the

productive framework, incorporating greater value-added, generating quality employment and promoting dynamic integration into global trade flows.

12. This strategy has intensified the growth process with the result that Argentina is making a relative contribution to global demand more than proportional to its size, thereby promoting increased trade flows and world growth.

13. In short, the results achieved since 2003 and, in particular, during the review period, indicate that Argentina is on the right track.

## **(2) GLOBAL ECONOMIC ENVIRONMENT**

14. The eruption of the international economic crisis in 2008, with its epicentre in the developed countries, and the difficulty in finding solutions capable of putting the global economy back on the path of growth confronted Argentina and the developing countries with a great challenge in achieving their policy goals.

15. The global crisis clearly revealed the inadequacies of models that disregard the role of the State. In fact, it was triggered when the financial processes of global speculation, in the absence of all State control, reached a limit as a means of creating growth.

16. The process of fiscal adjustment applied to the developed country economies since 2010 has had obvious consequences for the real sector: in 2011, the global economy slowed down, growing by only 3.9% as compared with 5.3% in the previous year. Thus, during 2011 the global economy remained weak as a result of new episodes of financial stress, with Europe failing to recover and the United States economy continuing to show signs of fragility, thereby creating a latent threat of a further relapse in the world economy.

17. Similarly, the prospects for 2012 are that several developed economies will experience recession: the most optimistic estimates indicate that GDP in the Eurozone will contract by 0.3% on an annual basis, while growing by 2.0% in Japan and barely 2.1% in the United States.

18. For their part, the developing countries are still expected to grow, despite a certain slowdown during 2011 due to the economic environment described above.

19. Despite the crisis, in 2011 Argentina was able to maintain the high rate of expansion of the previous year. With plus 8.9%, it was one of the Latin American countries with the highest rates of growth. Thus, between 2003 and 2011, GDP grew at an average rate of 7.7%, while per capita GDP accumulated a 66.2% increase.

20. The country's macroeconomic performance during the review period is summarized below.

## **(3) MACROECONOMIC PERFORMANCE 2007-2012**

### **(i) Economic growth with social inclusion**

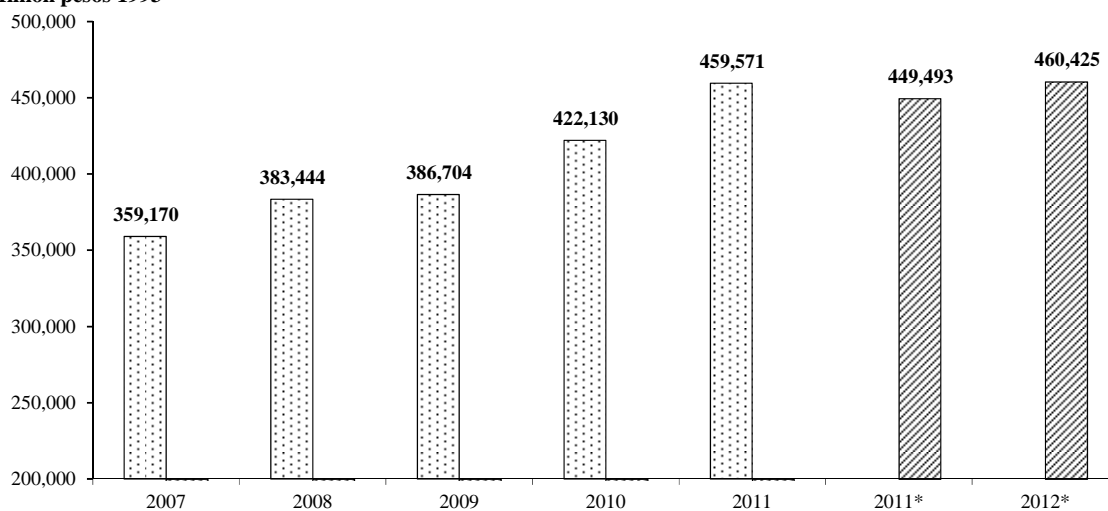
21. Since the last Trade Policy Report, Argentina's economy has continued along the path of growth. Between 2007 and 2011, real GDP expanded at an average annual rate of 6.4%. Moreover, it should be noted that after the slowdown caused by the international economic and financial crisis during 2009, high growth rates were again recorded in 2010 and 2011 (9.2% and 8.9%, respectively).

22. This performance can be attributed to the consistency of the Government's economic policy decisions, taken in a critical global context, which propped up domestic demand while managing to maintain the good performance of the external sector.

23. This favourable trend has extended into the current year. In the first half of 2012, real GDP rose 2.4% relative to the same period in 2011, and, according to budget estimates, will end the year with an increase of 5.1%.<sup>1</sup>

## GDP

Million pesos 1993



\* First half.

Source: National Institute of Statistics and Censuses (INDEC).

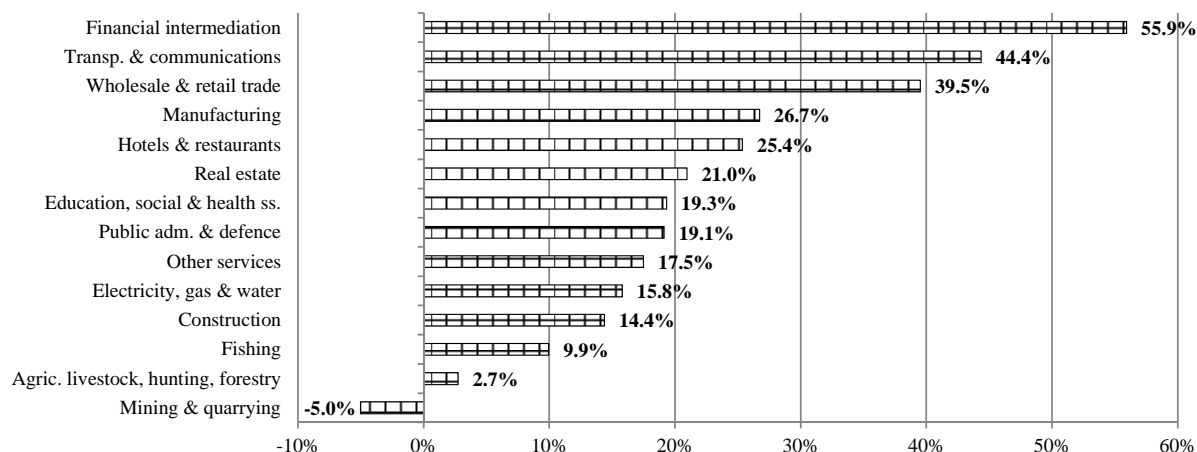
24. During the period 2006-2011, per capita GDP - measured in US dollars - doubled, rising from US\$5,424 in 2006 to US\$10,896 in 2011.

25. It should be noted that every sector of activity, except for mining and quarrying, grew during the period 2007-2011; this trend was particularly significant in financial intermediation (55.9%), transport and communications (44.4%), retail and wholesale trade (39.5%), and manufacturing (26.7%).

<sup>1</sup> Ministry of the Economy and Public Finance (2012), 2012: *Presupuesto: Resumen*. Viewed at: <http://www.mecon.gov.ar/onp/html/presupresumen/resum12.pdf>.

### Gross value-added, by sector

(Change % 2007-2011)



Source: INDEC.

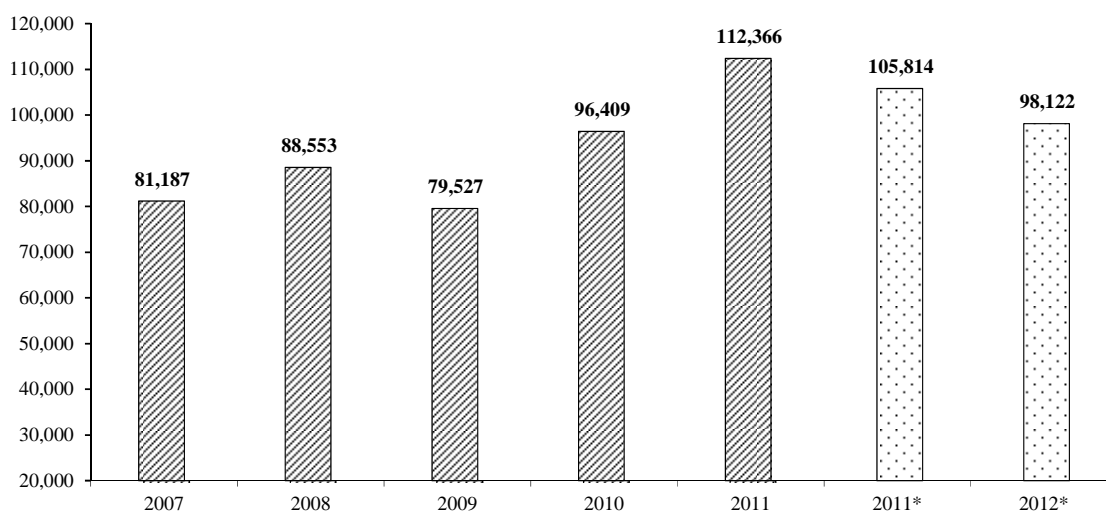
26. Sustained growth also generated strong investment. During the first years of recovery, from 2003 to 2005, the improvement in the domestic market offered businesses a robust demand met mainly by utilizing idle existing capacity and running machinery for longer periods of time.

27. However, as companies expanded the use of their installed capacity, it became necessary to progress to new investment. Thus, from 2005, production was mostly maintained by creating new productive capacity. As a result of this process, in 2011 fixed investment exceeded the peak achieved under convertibility (1998) by 85%, reaching 23% of GDP (at current prices).

28. These levels of investment are a clear sign of the growth potential of the economy in the medium term and a significant indicator of business expectations and hence the country's prospects for growth.

### Gross domestic fixed investment

Million pesos 1993



\* First half.

Source: INDEC.



**(ii) Trends in foreign trade**

29. The policies adopted by the National Government to improve competitiveness, together with an active trade promotion policy, resulted in more intensive exporting, the diversification of the export basket and the opening up of new markets.

30. Between 2007 and 2011 Argentina's foreign trade continued further along the path of growth on which it first set out in 2003: exports grew at an average annual rate of 14.1% and imports at an annual rate of 20.7% (in current dollars). It is important to note that both percentages were influenced by the sharp decline in global trade in 2009.

31. In 2010 and 2011 exports grew at an annual rate of 22.8% and imports at 38.3%, evidence of the powerful integration of the Argentine economy in global trade.

32. The strength of the country's export performance becomes clear when the trend in global trade is compared with that of Argentina: whereas during the period 2007-2011 global imports increased by 19%, Argentina's imports increased by 65.4%, three times the global growth rate. Where exports are concerned, Argentina recorded an increase of 50% over the same period, much higher than the corresponding figure for global exports (18%).

33. It should be noted that the sustained growth in exports during the review period made it possible to generate a trade surplus, which was beneficial for the balance of payments and the sustainability of economic policy.

34. In this connection, throughout the period beginning in 2003 the trade balance was positive, even in the current global context. Thus, in the first nine months of 2012 the trade surplus was US\$10,942 million<sup>2</sup>, which means a year-on-year rise of 34%.

35. In analysing the trends in trade it is important to consider, in particular, the performance of exports of manufactures of industrial origin (MIO), which rose from 29% of total foreign sales between 1991 and 2002 to 35% between 2003 and 2011, despite the rising trend in agricultural products.

36. This effect is a consequence of the 17% average annual increase in MIO exports since 2003, a rate considerably higher than that for Argentine exports as a whole (14% per year on average).

37. In addition, manufacturing exports increased their share of GDP, reaching 6.5% during the period 2003-2011, whereas in the 1990s they accounted for only 2.2%.

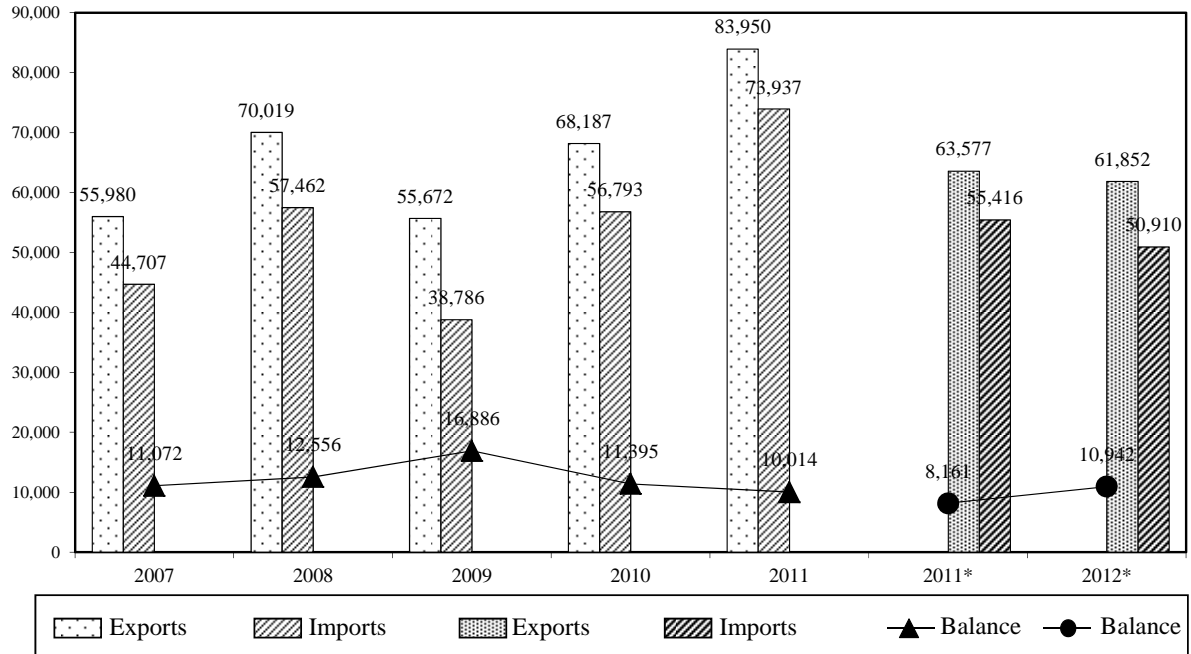
38. The trend described led to foreign sales of MIO rising by a total of 67% during the review period. Thus, Argentina managed to avoid primarization, by raising the value added content of its exports.

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<sup>2</sup> *Intercambio Comercial Argentino: Datos provisorios del año 2011 y cifras estimadas de enero-septiembre de 2012.* Viewed at: [www.indec.gob.ar](http://www.indec.gob.ar).

### Argentina's trade balance

Million pesos

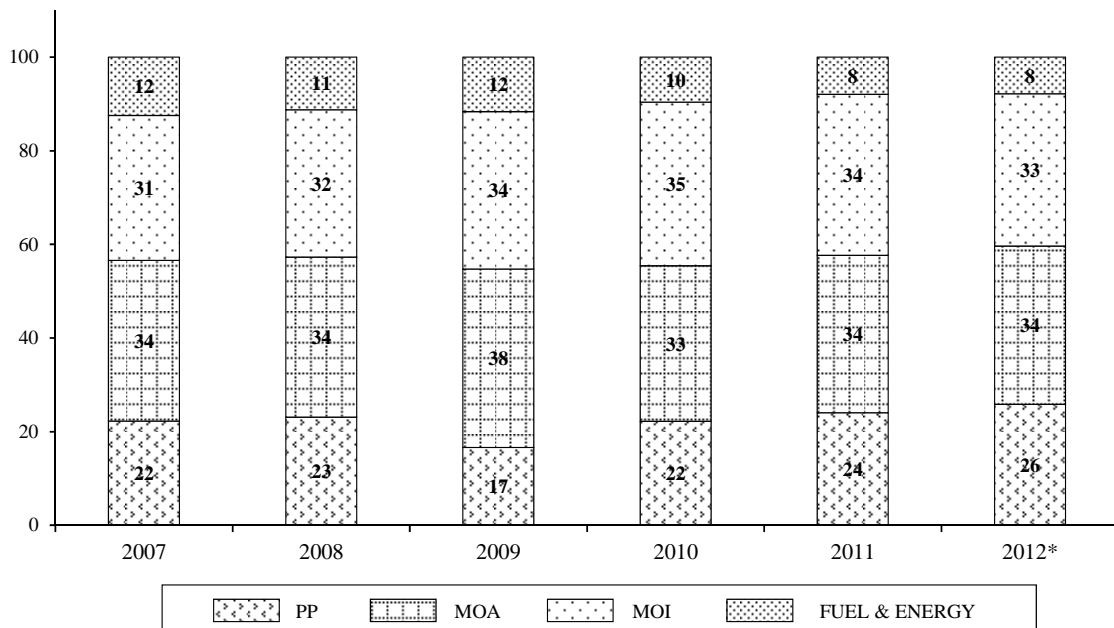


\* January-August.

Source: INDEC.

### Argentina's exports by main groups

Per cent



\* 8 months.

Source: INDEC.

39. In this connection, it is appropriate to stress not only the increase in exports but also their greater technological content: the contribution of mid- to high-tech products to total exports reached 24% during the period 2007-2011, which is higher than that recorded in earlier periods (20.7% for 1996-1998).

40. Another distinctive aspect of this phase was the increasing contribution of producers of capital goods and engineering products, as well as of chemical companies and manufacturers of vehicle parts, among others.

41. For their part, MSME exports accounted for 15% of total national exports. It should be noted that this sector is being given priority under the national development strategy.

42. In the particular case of exports of Primary Products<sup>3</sup> (PP) and Manufactures of Agricultural Origin (MAO), an increasing trend was maintained up to 2008, with sustained growth at rates of 11.25% in 2006, 33.89% in 2007 and 28.94% in 2008. After a decline in 2009 due to the international economic crisis, these exports resumed their expansion, recording growth rates of 23.26% in 2010 and 29.36% in 2011.

43. Wheat, maize and soy complex are making a very significant contribution as export products.

44. As regards PP and MAO imports, they increased steadily between 2002 and 2008 (growth between end-points of 434%), only to decline markedly in 2009 due to the international economic crisis. They resumed their expansion in 2010 and 2011, albeit without achieving the level recorded in 2008.

45. Prominent among imports are oilseeds and oleaginous fruit which, on average, accounted for 20% of the sector total between 2006 and 2011. These products are mainly imported for pressing, which indicates the importance of vegetable oil and "pellet" production within MAO.

#### Foreign trade: Argentina 2007-2011

(US\$ million)

Exports f.o.b.	2007	2008	2009	2010	2011	Ch. Exports 2011-2007
Primary products	12,486	16,202	9,257	15,148	20,213	61.9%
Manufactures of Agricultural Origin (MOA)	19,213	23,906	21,225	22,668	28,192	46.7%
Manufactures of Industrial Origin (MOI)	17,333	22,063	18,734	23,846	28,916	66.8%
Fuel and energy	6,949	7,848	6,457	6,525	6,629	-4.6%
<b>Total</b>	<b>55,980</b>	<b>70,019</b>	<b>55,672</b>	<b>68,187</b>	<b>83,950</b>	<b>50.0%</b>
Imports c.i.f.	2007	2008	2009	2010	2011	Ch. Imports 2011-2007
Primary products	1,804	3,137	1,245	1,663	2,270	25.9%
Manufactures of Agricultural Origin (MOA)	1,065	1,303	1,065	1,478	1,805	69.5%
Manufactures of Industrial Origin (MOI)	38,990	48,681	33,846	48,888	60,415	55.0%
Fuel and energy	2,849	4,341	2,631	4,763	9,446	231.6%
<b>Total</b>	<b>44,707</b>	<b>57,462</b>	<b>38,786</b>	<b>56,793</b>	<b>73,937</b>	<b>65.4%</b>

Source: National Directorate of National Accounts - INDEC.

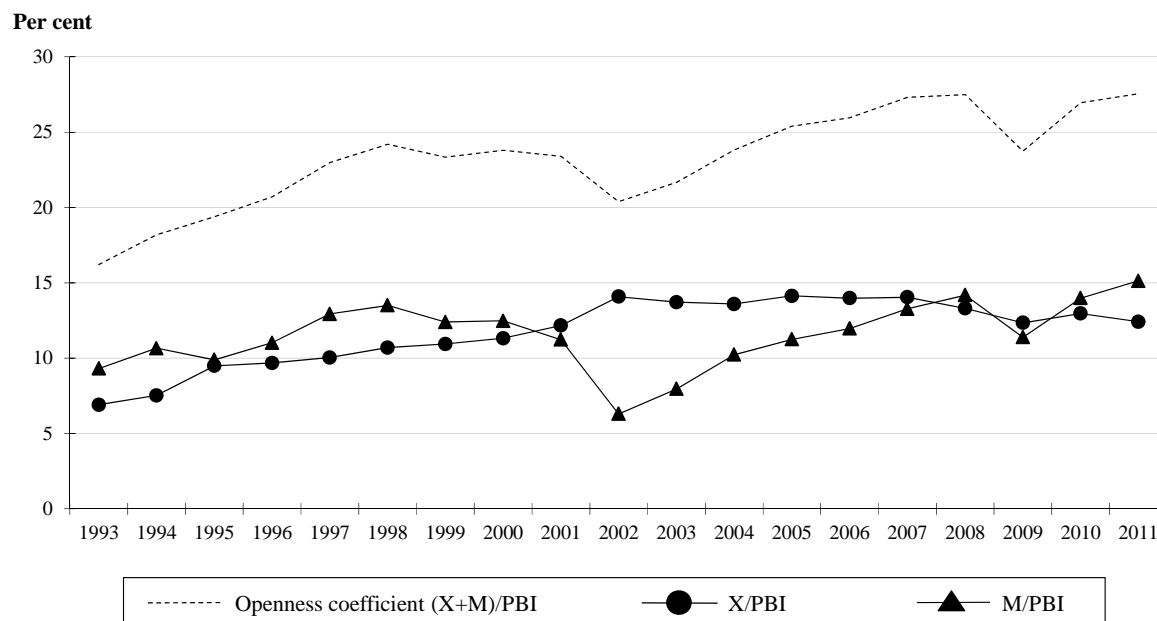
46. It is important to note that the coefficient of openness of the economy (understood as the ratio of foreign trade to GDP) has continued to increase in accordance with the trend observed over recent

<sup>3</sup> Excluding those of mineral origin.

decades, thanks to the greater relative growth of Argentina's trade. In this case too there was a decline in 2009 and a subsequent recovery.

### Degree of openness of the economy

(at 1993 prices)



Source: INDEC.

47. The diversification of Argentina's trade is reflected in the relative shares of its main trading partners.

48. MERCOSUR maintained its position as the principal export destination (24.7%), while the Asia-Pacific countries increased their share to 15.4%. As a result of these changes, in 2011 the two regions accounted for 40.1% of Argentine exports as compared with 38.3% in 2007. Exports to North America and the European Union accounted for 26% during the period 2007-2011.

49. Where imports are concerned, thanks to growth and steady economic recovery Argentina made a relative contribution to global demand more than proportional to its size, thereby promoting increased trade flows and global growth.

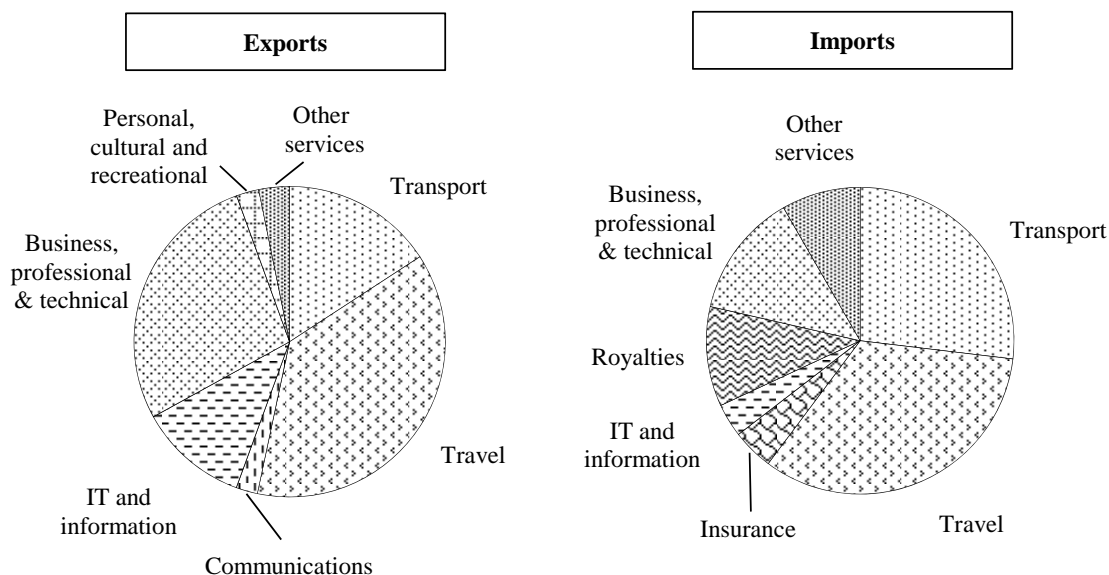
50. Intra-regional trade played a significant role, as evidenced by the combined contribution of MERCOSUR and LAIA (34%) to total imports. At the same time, Asia-Pacific imports were those whose share showed the biggest increase, reaching 25% in 2011. Finally, one third of total imports originated in the countries of North America, the European Union and Africa.

51. Trade in services increased in volume by about 45%.

52. The services that grew the most were those related with information and information technology. Business, professional and technical services and construction services continued to show surpluses.

53. Exports and imports of services for the year 2011 are broken down in the chart below.

### Exports and imports of services, 2011



Source: INDEC.

### (iii) Trade promotion

54. Another aspect of the National Government's strategy to expand growth and employment and further improve external integration in the present environment of international economic crisis has been its implementation of an ambitious and active trade promotion policy.

55. The creation of the Foreign Trade Secretariat under the Ministry of the Economy and Public Finance and the coordination of its activities with the initiatives of other ministries is a central feature of this policy.

56. Within this context, Argentina is seeking to increase and diversify Argentine exports with respect to not only destinations but also regions, products and enterprises. Where destinations are concerned, the aim is to strengthen exports to traditional trading partners while helping to open up promising new growth markets. In terms of products, efforts are being made to diversify export supply, with emphasis on products with greater value-added at origin and local technology content in order to generate quality employment in Argentina.

57. The MSMEs are a prime target for these measures, in view of the special contribution they make to job creation and their greater need for assistance with the process of trade internationalization. At the same time, Argentina's trade promotion policy is also prioritizing the federalization of foreign trade, with the aim of improving the geographical balance of the domestic production system by promoting sales from regional production complexes.

58. These measures are being supplemented by continuous negotiations to improve access to markets for Argentine products, as well as by multilateral questioning, through the World Trade Organization, of the new forms of protectionism evidenced by the increasing proliferation of non-tariff barriers.

59. Trade promotion policy is being implemented by means of multisectoral and sectoral trade missions carried out abroad, the identification of marketing opportunities by Argentina's more than 140 representative offices around the world, visits to Argentina by foreign importers (so-called "reverse missions"), and participation in international fairs and exhibitions. Argentina's worldwide chain of representative offices are working to put these measures into effect, supply domestic businesses with market information and provide them with assistance throughout the export process.

60. At the same time, the work on trade promotion is being supplemented by the measures taken by the Argentine Export Foundation, a public-private trade promotion agency whose main task is to help businesses market their products and services competitively at international level. To this end, the Argentine Export Foundation facilitates contacts between Argentine producers and foreign buyers at the world's biggest business events and provides domestic companies with trade information, technical assistance and training.

**(iv) Financial situation**

61. In the field of finance and foreign exchange, the year 2011 was marked by the repercussions of increasing global financial instability, especially during the second half of the year. The Central Bank of the Argentine Republic (BCRA) played an active part in the market which enabled it to manage parities and smooth out movements in the nominal exchange rate in the face of the possible impact of shocks to the international financial system.

62. In 2011, the BCRA's international reserves averaged US\$50,410 million (US\$38,500 million more than in 2003), providing ample room for manoeuvre in dealing with exchange-rate pressures, as happened in connection with the outbreak of the international crisis.

63. In parallel with its intervention in the foreign-exchange market, during the last months of 2011 the BCRA took a series of measures to strengthen its operational capabilities. Moreover, in April 2012 the new Charter of the Central Bank, approved by Law No. 26.739, entered into force.

64. The reforms were mainly aimed at adapting the Central Bank's regulatory framework to the new macroeconomic model in effect since the abandonment of convertibility. The Central Bank's new freedom of manoeuvre gave the monetary authority greater flexibility in dealing with the short-term needs of an economy exposed to international economic volatility.

65. The banking system continues to report excellent solvency and soundness indicators, as well as high rates of return. At the same time, the "irregularity" (non-performance) ratio for private sector financing remains at low levels in historical terms (1.7%). Moreover, provisions as a percentage of the irregular portfolio stand at about 145%, which shows that the system has a high level of coverage.

66. Private-sector fixed-term deposits are increasing at record year-on-year rates of about 50%, exceeding last year's levels. This high rate of expansion shows that the economic and financial policies adopted have succeeded in establishing confidence in the local financial system.

**(v) Fiscal soundness**

67. The fiscal soundness of the economic model is demonstrated by the primary surpluses obtained since 2003, something never before experienced in Argentina's history. This achievement can be attributed to several factors.

68. Firstly, to the public debt reduction policy. The economic growth experienced in the last nine years has made it possible to pursue a determined policy of national public-sector debt reduction, leading to strong State finances and a sovereign macroeconomic policy. Whereas in 2002 gross national public-sector debt amounted to 166.4% of GDP, by the fourth quarter of 2011 this figure had been reduced to 41.8%. Moreover, 53.8% of this total is in the hands of public-sector agencies and 13.9% is held by multilateral and bilateral credit organizations. Thus, only 32.3% of public debt, amounting to a mere 13.5% of GDP, is in private hands.

69. Secondly, to more efficient tax administration and a lesser tendency to evade and avoid taxes. This is being supplemented by a process of increasing the impact of progressive taxes such as export duties and income/profits tax (*impuesto a las ganancias*), signifying progress towards a fairer tax structure.

70. Thirdly, to an expansion of public expenditure, which maintained a balance between the need to restore coverage of the country's social and physical infrastructure and the goal of achieving a budgetary outcome that would provide the capacity to carry out various public policies if the circumstances so required.

71. The debt reduction and the absence of budgetary imbalances has made it possible to use fiscal policy tools to restore the economic infrastructure, take care of the needs of the less privileged social groups and promote greater regional equity. These measures include, in particular, the creation of the Federal Solidarity Fund to finance works aimed at improving the health, education, hospital, housing or road infrastructure in urban or rural areas in the provinces and municipalities.

72. Thus, throughout the review period tax receipts reflected recovery in the level of activity. During the period 2007-2011 the cumulative increase was 170%. In the first nine months of 2012, receipts grew by 25% as compared with the same period during the previous year, reaching Arg\$496,783 million.

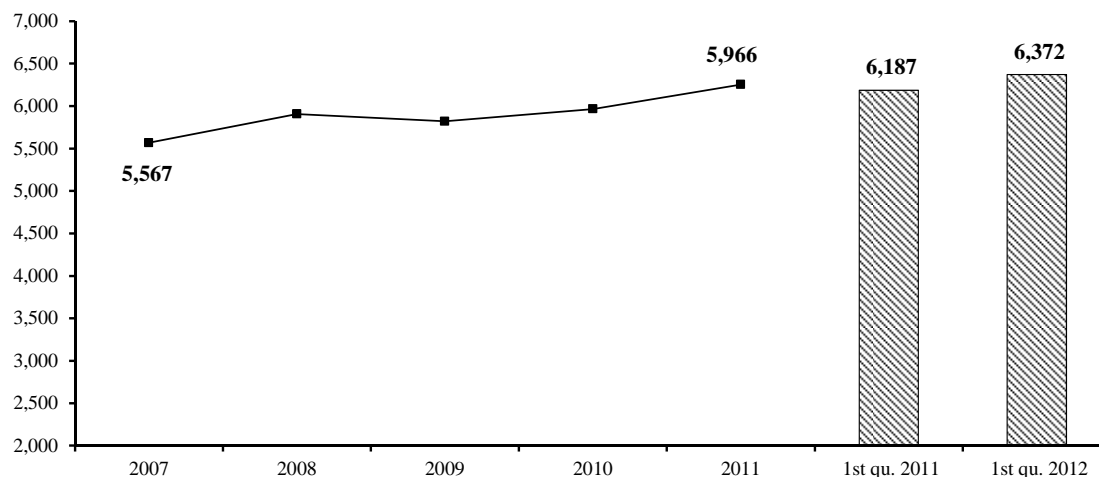
73. On the expenditure side, between 2007 and 2011 primary expenditure expanded by 218%. In January-August 2012 an increase of 32% was recorded as compared with the same period in the previous year. Thus, throughout the period 2007-2011 buoyant tax receipts made it possible to record primary surpluses, which in the first eight months of 2012 amounted to Arg\$6,200 million.

**(vi) Employment and social policy**

74. The accelerated rate of growth was also reflected in the main labour market indicators, which followed a favourable trend despite the resurgence of the global crisis. Activity and employment rates continued to rise and unemployment fell to 6.7% in the fourth quarter of 2011. Moreover, formal employment continued to gain ground: the non-registration rate fell 0.9 percentage points between 2010 and 2011.

### Registered private employment

Thousands of jobs



Source: Ministry of Labour, Employment and Social Security.

75. After several years of steady growth and recovery in employment and in the production sector, from 2006 the social protection system became the target for important reforms, such as the Social Security System Inclusion Programme and the Universal Child Allowance (AUH) and Pregnancy Allowance for Social Protection, which succeeded in putting the rights of more vulnerable groups - the elderly and children - on an equal footing regardless of the characteristics of their entry into the labour market.

76. Moreover, within the context of the global crisis, the policies to reduce the risk of unemployment have been extended. The Production Recovery Programme (REPRO), a key tool for preventing job destruction during the crisis of 2009, has been extended up to 31 December 2012.

77. The reduction in employer's contributions for new workers (Law No. 26.476), a policy that proved effective in creating new jobs following the last international crisis, has also been extended. In this way, the total wage bill has been maintained and the activity and employment rates stabilized at 45.5% and 42.3%, respectively.

78. With respect to income policy, the revival and periodic updating as from 2003 of two such fundamental institutions as the Sliding Minimum Living Wage (SMVM) and peer negotiations by branch of economic activity continued to boost workers' spending power.

79. The SMVM was recently set at Arg\$2,875, a figure to be reached in two steps: September 2012 and February 2013. By the latter month, the SMVM will have increased by 1,337.5% as compared with February 2003. Collective bargaining remained at high levels in 2011, with 1,864 approved agreements and contracts.

80. Where the incomes of the non-working population are concerned, pensions increased by 37% in 2011 and the minimum pension, which stood at Arg\$150 in 2003, reached Arg\$1,924 in September 2012, the equivalent of a 1,183.7% increase. These increases are important not only because of their size but also because of the extent of their coverage among the elderly.



81. According to the 2010 census, starting with the Social Security System Inclusion Programme, coverage increased by more than 20 percentage points in the last ten years and now takes in 95.1% of elderly adults.

82. Finally, the current strength and favourable evolution of the labour market in Argentina, together with the income-boosting measures adopted by the National Government, have made it possible to continue improving income distribution.

83. In the second quarter of 2004 the income gap, calculated as the ratio of the share of income going to the richest 10% of the population to the share going to the poorest 10%, was 60.3; by the second quarter of 2012 it had fallen to 18.2. Likewise, in the second quarter of 2012 income distribution was the fairest for the last 18 years, with a Gini coefficient of 0.418.

#### **(4) SECTORAL PERFORMANCE**

##### **(i) Agricultural sector**

84. The agricultural sector played a decisive role in consolidating the economic and social growth that began in 2003, thanks to a virtuous loop between domestic policies clearly aimed at promoting development and an international environment that favoured agricultural products.

85. In the review period, the Government focused its efforts on increasing agricultural production and productivity while achieving greater social inclusion, with the emphasis on increasing value-added at origin, strengthening the regional economies and promoting the development of small producers.

86. The active participation of the State had a favourable impact on sectoral development in several ways. On the one hand, the establishment of consistent macroeconomic policies facilitated planning by the producers. Secondly, the recovery of the domestic market was consolidated as a result of strong economic growth, which improved national food security. Thirdly, incentives for productive investment continued to be provided in order to meet the growing demand for food, both domestic and international, and encourage rural industrialization.

87. Another feature was the promotion of international trade negotiations and the establishment of high health and technical standards which made possible the entry of more products for more uses and with greater value-added at origin.

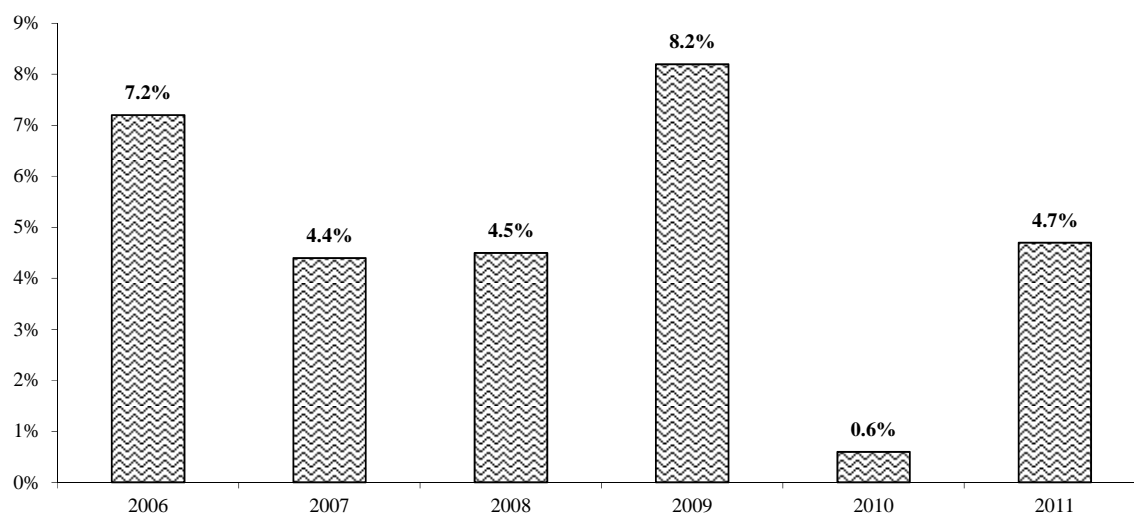
88. It should be noted that in 2011, agricultural GDP was 28% higher than in 2004, with stable and sustainable growth during the intervening years.

89. Where agricultural biotechnology is concerned, between 2006 and 2011 Argentina authorized the marketing of 12 biotech soya and maize crops. These crops have a better yield and/or reduce production costs, as the case may be, and ultimately all contribute to a more competitive range of Argentine agricultural products for export, a range within which products derived from soya and maize predominate.

90. Moreover, the use of these crops is helping to make production more sustainable since, compared with conventional crops, there is a reduced need for pesticides and preference is given to management models that better preserve soil resources.

91. The sustained growth of the agricultural sector is reflected not only in primary products but also in manufactures of agricultural origin (MAO). In recent years, the food and beverage (F&B) industry has steadily expanded. Between 2006 and 2011 the sector grew by 42%, with a gross value-added at 1993 prices that rose from Arg\$13,124 million to Arg\$18,689 million.

#### Trend in the level of food and beverage industry activity

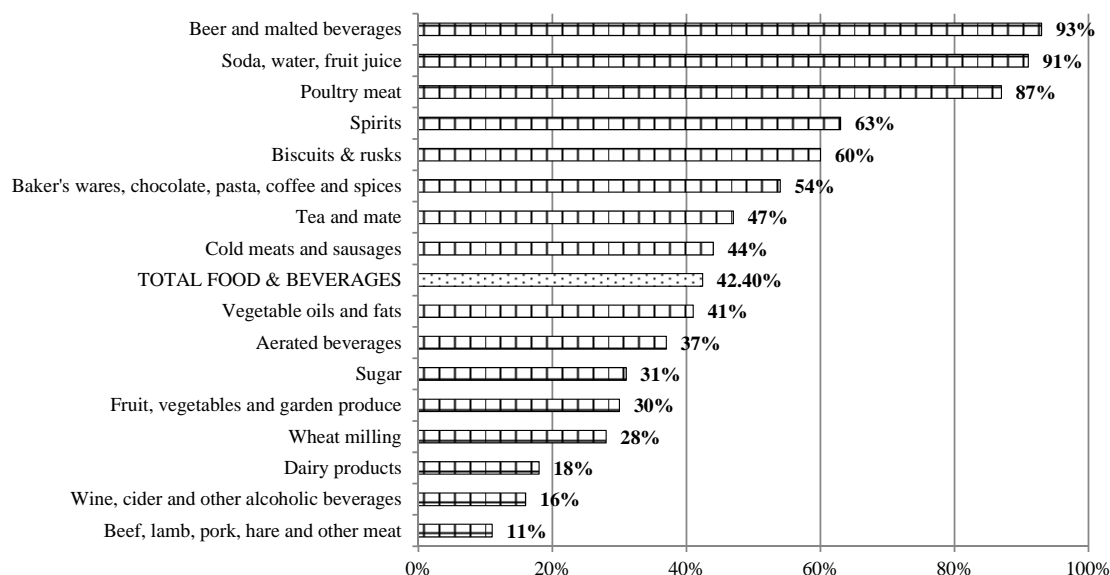


Source: INDEC.

92. Growth in some sectors considerably exceeded the general level, for example, beer and malted beverages (93%); sodas, water and fruit juice (91%); poultry meat (87%); spirits (63%); biscuits and rusks (60%); confectionery and baker's wares (54%); tea and mate (47%); and cold meats and sausages (44%).

93. Between 2006 and 2011, food and beverage exports rose from US\$14,299 million to US\$26,471 million, an 85% increase. This expansion of the sector was also reflected in MAO exports, which reached US\$28,192 million in 2011 (85% more than in 2006) and accounted for 34% of total exports.

### Trend in value-added, by sector 2006-2011



Source: INDEC.

94. It is particularly worth noting the improvement in the competitiveness of the poultry meat sector, which grew its production from 1.2 to 1.8 million tonnes between 2006 and 2011, an increase of 53%. This increase had an impact on the domestic as well as the external market. On the one hand, the local market absorbed a substantial share, with consumption rising from 27.8 kg per head per year to 38.6 kg per head per year (an increase of 39%). On the other hand, total exports (meat and byproducts) increased by 106% in volume (292,000 tonnes in 2011) and by 229% in value (US\$459 million f.o.b. in 2011).

95. From the institutional standpoint, the agricultural portfolio was given ministerial status with the creation of the Ministry of Agriculture, Livestock and Fisheries (MAGyP)<sup>4</sup> in 2010, which made it possible for agricultural issues to be dealt with at the highest political level.

96. Three Secretariats were established under the MAGyP: (i) Agriculture, Livestock and Fisheries, (ii) Policy-Institutional Coordination and Agricultural Emergencies, and (iii) Rural Development and Family Agriculture. Within this process, the creation of the Undersecretariat for Value Added and New Technologies, with the aim of promoting the incorporation of value into the export range and thereby generating new jobs and promoting rural industrialization, deserves special attention.

97. The process of strengthening and professionalizing the decentralized agencies reporting to the MAGyP has also continued. These include (i) SENASA, the agency charged with implementing national animal and plant health and quality policies and verifying compliance with the relevant regulations; (ii) INTA, the agency responsible for the design and implementation of research and technological innovation measures in the value chains, regions and territories for the purpose of improving competitiveness and sustainable rural development; (iii) INIDEP, the agency charged with providing technical information on the rational use of sustainable resources for the primary purpose of

<sup>4</sup> Raising the status of the former Secretariat for Agriculture, Livestock, Fisheries and Food.

preserving the marine ecosystem; (iv) INV, the agency competent for the development and inspection of the wine-making sector; and (v) INASE, the agency entrusted with promoting the transparency of the seed markets and stimulating the development of the seed sector.

98. Within this public policy framework the Strategic Agri-Food and Agro-Industrial Plan for 2010-2020 (PEA) was launched. This plan is aimed at achieving sustainable growth in agri-food and agro-industrial production for the purpose of generating greater wealth with value-added at origin and benefits for the entire population in the form of development, social justice, regional equity, land tenure, and food and nutritional security.

99. The plan is the result of coordination between representatives of the 23 provinces, 53 faculties, 140 business chambers, 300 representatives of the economic and social sector, international organizations (ECLAC, FAO, IICA and UNDP), 450 rural women, 340 young family farmers, 450 agricultural technology schools and more than 1,150 people connected with the sector from all over the country.

100. Investment, both public and foreign direct, has also increased strongly in the agricultural sector due to the restoration of the State's role in ordering the economy, the increase in domestic demand through wage recovery, and the recovery in international prices.

101. In this connection, the MAGyP is implementing a series of agricultural financing and promotion programmes through its Rural Change Unit (UCAR), the main one being the Provincial Agricultural Services Programme (PROSAP). PROSAP is preparing and implementing productive infrastructure projects (irrigation and drainage, electrification and rural roads, agricultural and agri-food health and quality, forest development, and technical assistance and training), as well as projects for promoting private investment in production chains and financing of cluster development initiatives, regional development and technical innovation transfer.

## **(ii) Manufacturing sector**

102. Industrial development is one of the pillars of the political and economic model first introduced in 2003. It is understood that sustained industrial growth is a necessary condition for achieving the National Government's objective of development with social inclusion. Within this context, in the last nine years Argentina's industry has experienced the greatest growth cycle in its history, in terms of both duration and intensity.

103. Manufacturing GDP grew at an average annual rate of 8.4%, a figure which exceeds the high rate of growth of Argentina's real GDP over the period 2003-2011 (7.7%). The manufacturing sector recorded high growth rates in every year except 2009, the only year in which industrial GDP turned negative (-0.5%), reflecting the impact of the international crisis. Even so, industrial activity recovered rapidly, growing by 9.8% in 2010 and 11% in 2011, to set new records for production, investment and exports.

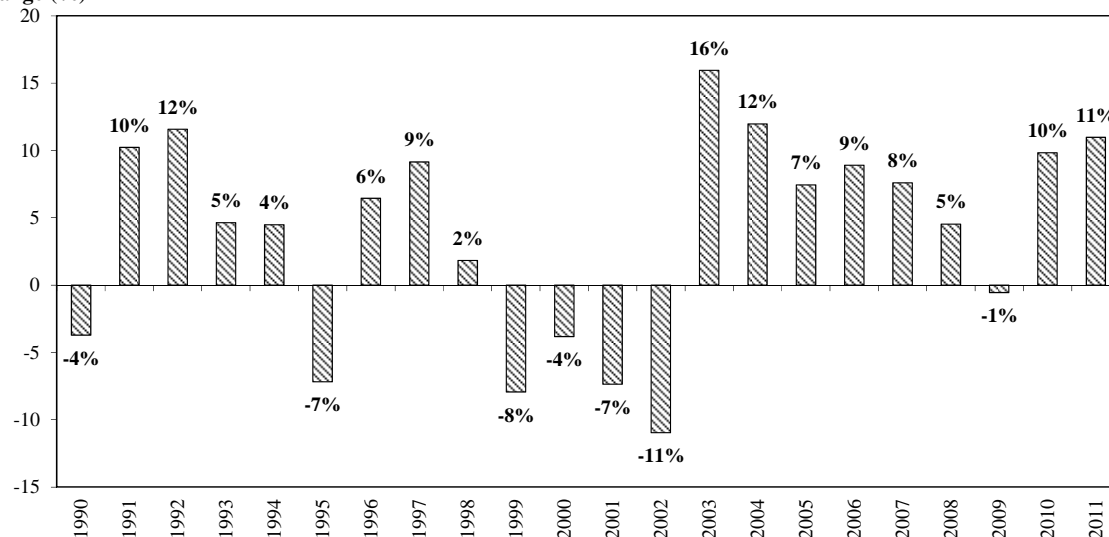
104. Thus, industry has reassumed its role as the engine of growth. In fact, it was the sector that contributed most to the expansion of GDP, accounting for 17.3% of the increase in product recorded between 2003 and 2012.

105. Moreover, during the period 2006-2011, real industrial GDP increased by 36% (6% average annual growth), with a degree of installed capacity utilization that averaged 78.7% in 2011, five points higher than the average level recorded in 2006 (73.7%).

### Industrial GDP

(At constant prices, million 1993)

Change (%)

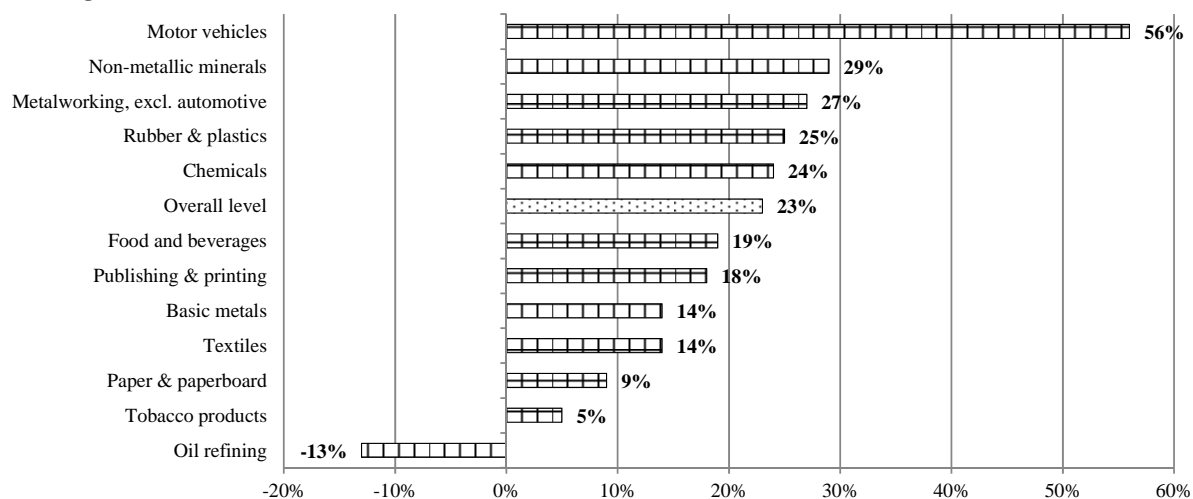


Source: INDEC.

106. As distinct from other periods of manufacturing expansion centred on the growth of a few sectors, since 2003 the majority of branches of industry have performed strongly, achieving balanced growth which not only met expanding domestic demand but also succeeded in supplying foreign markets through increased exports.

### Manufacturing industry

(Change % 2007-2011)



Source: Monthly Industrial Activity Estimator (EMI) - INDEC.

107. Undoubtedly, one of the most notable structural changes brought about since 2003 is the recovery in industrial density, thanks to which the productive framework has been strengthened both by the generalized growth of all the manufacturing sectors and by the net creation of businesses and the growth of MSMEs.

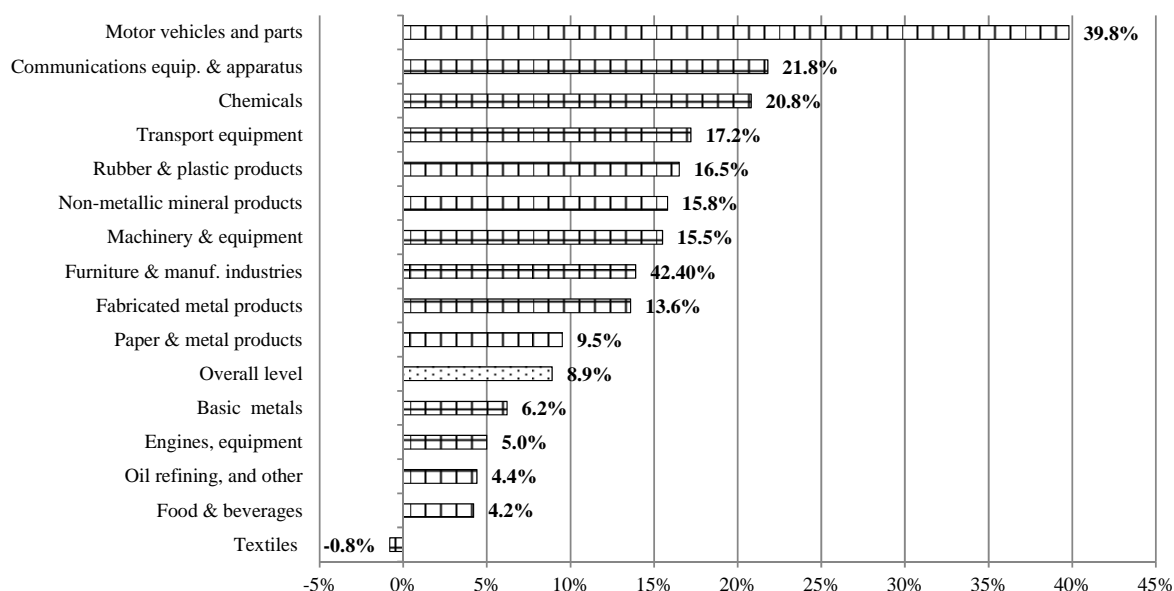
108. Through its impact on job creation and income distribution, the development of MSMEs is a key factor in the process of growth with social inclusion. In fact, the MSMEs are one of the main concerns of the Ministry of Industry, which offers financing, training, support for entrepreneurship and assistance with the process of internationalization of production.

109. Thus, since 2003, more than 19,000 small and medium-sized industrial enterprises have been created and account for a significant proportion of the million jobs generated in industry.

110. Job creation has been accompanied by an increase in labour productivity. Productivity in the manufacturing sector grew at an annual rate of 6.4% in the period 2006-2011. The increase in productivity was particularly rapid in the leather and footwear sector (94%), in the food industry (56%) and in motor vehicle production (40%).

### Employment Growth Index (EGI) for the manufacturing industry

(Change % 2011 vs. 2006)



Source: INDEC.

111. The growth of the industry was strongly reflected in the external sector. Both exports and imports of manufactured products increased rapidly during the review period and the value traded almost doubled between 2006 and 2011. Thus, while imports grew by 99.4%, exports grew by 89.7% in the same period.

112. Where manufactures of industrial origin (MIO) are concerned, in 2011 exports reached an all-time maximum of US\$28,916 million, having increased at an annual rate of 14.3% between 2006 and 2011. The main exports were land transport vehicles and chemical and related products, which accounted for 35% and 20% of total MIO exports, respectively.

113. Imports totalled US\$60,415 million in 2011, almost double the figure for 2006 (US\$30,394 million), having expanded at an annual rate of 14.7%.

114. The Ministry of Industry, created during the review period, is responsible for designing and implementing national industrial policy, with the aim of achieving sustainable industrial development

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that ensures growth with social inclusion and has a positive impact on income distribution. The work of the Ministry of Industry is mainly organized through three Secretariats corresponding to three strategic areas.

115. The mission of the Secretariat for Industry is to intervene in the definition of industrial policy and the design, financing and utilization of the tools needed to promote the development of industry, as well to define policies for the promotion of investment and financing facilities for the industrial sector.

116. The Secretariat for Strategic Industrial Planning concerns itself with planning medium and long-term industrial policies and with implementing regional, sectoral and value chain policies to improve competitiveness and the degree of value-added.

117. The Secretariat for Small and Medium-Sized Enterprises and Regional Development (SEPYME) determines the strategic outlines of policies concerning micro, small and medium-sized enterprises (MSMEs) and coordinates specific policies in support of the commercial internationalization of MSMEs.

118. A fourth entity assigned to the Ministry of Industry, the National Institute of Industrial Technology (INTI), has the task of facilitating the incorporation of technology and innovation into MSME production processes.<sup>5</sup>

119. With a view to expanding and consolidating the process of re-industrialization begun in 2003, the Ministry of Industry has launched the Strategic Plan for Industry 2020 (PEI 2020). The PEI 2020, in which workers, employers, universities and representatives of the public and private sectors participate, lays down overall objectives for Argentine industry, with annual growth of 5% of GDP and 7% of industrial GDP as targets.

120. The targets for 2020 are to achieve US\$167,000 million in exports and US\$139,000 million in imports, reduce the unemployment rate to 5%, with the creation of 1,500,000 jobs, and arrive at a level of investment of 28% of GDP. Thus, the Ministry of Industry has objectives validated by 2,500 participants from 11 industrial value chains.

121. In 2011, the development of Plan 2020 led to nine agreements that lay out the path for intensifying the re-industrialization process and enabling Argentina to achieve full development. Thus, each sector has its own particular space within which to deal with issues relating to the improvement of every link in its production chain, in every region of the country, so as to convert to industrial development and the strategies for achieving it, within a national policy framework.

### **III. FOREIGN TRADE POLICY**

#### **(1) ARGENTINA AND THE G-20**

122. Argentina participates actively in the G-20, a forum which since the crisis of 2008 has seen its status raised with the participation of Leaders and Heads of Government and has become the main group for global economic coordination. Thanks to its informal nature and spirit of cooperation it has been able to formulate policy agreements to confront the most acute phase of the current international crisis.

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<sup>5</sup> Online information from the Ministry of Industry. Viewed at: [http://www.industria.gov.ar/?page\\_id=12579](http://www.industria.gov.ar/?page_id=12579).

123. The Group has gone on to support the priorities of growth stimulation and job creation established by the forum in 2012, two complementary preconditions for world economic recovery which must be addressed in a consistent and coordinated fashion.

124. The National Government is convinced that the stimulation of aggregate demand is a necessary strategy for returning to the path of growth, a strategy which must be coordinated with policies for creating and promoting decent employment that favour social inclusion.

125. In addition, Argentina is a member of the G-20's emerging country group, whose vigorous growth has contributed both to global economic recovery and to the bolstering of aggregate demand and international trade.

126. Both the G-20 and other international organizations have recognized the efforts made by the emerging and developing economies, despite the fact that their growth trajectories have begun to be affected by the internal imbalances of the advanced economies and their slow recovery.

127. Argentina considers that the G-20's initiatives should neither duplicate nor replace the work being done in other international forums dedicated to specific issues such as, for example, the UNFCCC, where climate change is concerned.

128. With regard to trade, it has stressed the importance of concluding the Doha Development Round, with balanced results and pursuant to its original mandate and the single undertaking principle. In this connection, it has urged the inclusion in the G-20 Leaders' Declarations of a commitment to conclude the Round, inasmuch as the current status of the negotiations is weakening the international trading system.

129. In addition, at the meeting of the G-20 Ministers of Trade held during Mexico's temporary presidency, Argentina co-sponsored the presentation of the declaration of the BRICS group countries, thereby demonstrating its sympathy with the positions on trade taken in that document.

130. In the trade pillar of the Development Working Group, which is centred on the needs of the least developed countries (LDCs) from a development perspective and in the coordination of which Argentina participates, it has been striving to advance the initiatives previously agreed in the G-20. Several of these are related with the implementation of the commitments undertaken at the 2005 Hong Kong Ministerial Conference, such as duty-free and quota-free (DFQF) market access for these countries.

131. Argentina has also undertaken to provide LDCs with aid for trade through various initiatives on the African continent. These include the project on transparency and trade facilitation in Sub-Saharan Africa, supported by the African Development Bank (AfDB) and the World Bank, the financing of trade with the participation of the AfDB, and regional integration through the development of integration corridors and interregional routes with the aim of improving the infrastructure, particularly the roads, in order to develop intra-regional trade.

132. Finally, in the debate on food security in the G-20, it is Argentina's position that poverty is the main cause of this scourge that affects 870 million people. In order to confront this situation in an integrated fashion and thus make a substantial contribution to solving the problems of food insecurity, it is advocating the conclusion of the Doha Round in conformity with its agricultural mandate, the improvement of agricultural productivity in low-income countries, and better regulation of the financial commodity markets in this sector.



**(2) ARGENTINA AND THE WTO**

133. With a view to helping to reduce the development gap by promoting inclusive, sustainable and balanced growth, Argentina is playing an active part within the framework of the regular activities of the WTO, as well as in the Doha Development Round negotiations.

134. Argentina has pointed out that the rules which currently govern international trade are biased against the needs of the developing countries. The profound imbalance which has characterized the trade rules since the creation of the GATT restricts the opportunities for industrialization and for adding value to primary production in the countries in question.

135. Within this context, the central objective of the trade negotiations cannot be other than to work towards a more open, non-discriminatory model of the multilateral trading system, basically in the agricultural sector, that gives priority to the needs and interests of the developing countries, as established by the 2001 Doha Negotiating Mandate.

**(i) Regular committees**

136. Argentina participates actively in the regular activities of the WTO's various Committees and Councils, complying fully with its commitments to the Organization.

137. Where notifications and contributions to the transparency of the multilateral trading system are concerned, Argentina has regularly submitted new and full annual notifications under the Agreement on Subsidies and Countervailing Measures, notifications on import licensing procedures and the annual questionnaires on those procedures, draft sanitary and phytosanitary measures, and notifications of anti-dumping actions. Moreover, it has responded to all the enquiries made by other Members within the framework of the respective Committees, as well as within the context of the General Council and the Council for Trade in Goods.

138. Aware that the proliferation of barriers to trade, particularly on the part of the developed countries, has become a distorting factor that is jeopardizing the normal flow of trade, Argentina has held consultations on various restrictive measures applied by these countries within the context of meetings of the Committee on Technical Barriers to Trade. Moreover, it has given timely notification of all the trade-related technical regulations introduced during the review period.

139. At the same time, it has submitted numerous proposals to the Committee on Sanitary and Phytosanitary Measures. Specifically, during the review period it proposed action to improve the application of various provisions of the Agreement (including in relation to Articles 12.2, 8 and 12.4), and raised specific trade concerns with a view to ensuring that Members comply strictly with their obligations under the Agreement and that Argentine exports are not adversely affected by measures of a protectionist nature.

140. It should be noted that Argentina participates actively in the three international standardization organizations mentioned in the SPS Agreement, namely, the Codex Alimentarius Commission, the World Organisation for Animal Health (OIE) and the International Plant Protection Convention (IPPC).

141. It is important that attention be drawn to some of the concerns raised by Argentina at the regular meeting of the Committee on Agriculture held in November 2011, relating to:

- a. The paralysis of the Agricultural Reform process, incomplete as a result of the impasse in the Doha Round negotiations on agriculture.
- b. The impairment of the provisions of Article 4.2 of the Agreement on Agriculture concerning the elimination of non-tariff restrictions on imports. Argentina considers that the Agreement on Agriculture recognizes the very close linkage between trade liberalization goals in the sector and the proper application of other types of measures (sanitary and technical) whose impact in terms of market access can be just as if not more decisive than tariffs, domestic support or export subsidies. In view of these circumstances, Argentina has expressed its concern about the growing unjustified proliferation of measures of this kind, which seriously undermine the export potential of many countries.

142. At the June 2012 meeting, Argentina submitted a compilation of academic studies concerning the commercial quantification of trade losses which reveals both the existence of the problem and its capacity for impairing the modest access to the agricultural market obtained in the Uruguay Round.<sup>6</sup>

143. Argentina warned of this situation at the Eighth Ministerial Conference, when it stated that "As regards agriculture, the bastion of protectionism, the situation is very serious. It is not just the fact that the process of reform in agriculture has stopped, despite what was agreed in the Uruguay Round, but also the fact that the modest market access obtained then is being eroded by the growing use of technical barriers incompatible with the WTO rules. This protectionism takes on various forms, including arbitrary private standards or unjustified barriers to technological innovation".<sup>7</sup>

144. During the review period, Argentina participated in the accession processes of several countries, given the framework of predictability that the rules of the WTO provide for trade relations, and in particular in the accession working parties for Cape Verde, Tonga, Ukraine, Vanuatu and the Russian Federation, which ended successfully with the entry of these countries into the Organization.

145. Argentina is an active member of the Trade Policy Review Mechanism, which it considers essential for the transparency and predictability of the multilateral trading system. Accordingly, it has participated in more than 30 trade policy reviews of other WTO Members.

146. In view of the importance of the notifications made by Members, the developed countries are urged to provide up-to-date information concerning tariffs and trade volume, domestic support measures applied to agricultural products, and support measures for industrial sectors affected by the international crisis that began in 2008, so that all Members of the Organization contribute to the transparency of the multilateral trading system.

## **(ii) Dispute settlement**

147. During the review period, Argentina participated in a total of 27 disputes, acting in four disputes as the complainant, in five as the defendant and in 18 as a third party, complying in all cases with the recommendations of the Dispute Settlement Body. Thus, Argentina

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<sup>6</sup> 66<sup>th</sup> Regular Session of the Committee on Agriculture.

<sup>7</sup> WT/MIN(11)/ST/19.

ranks 11<sup>th</sup> among the countries to have made most use of this mechanism since the creation of the WTO, having participated in a total of 83 cases since 1995, mostly as a third party.

148. The WTO's dispute settlement mechanism is an essential factor in ensuring that Members comply with WTO rules. It is therefore necessary to strengthen the participation of the developing countries which, because of their relatively less powerful position within the global economic system, find their opportunities for involvement limited. Technical assistance could facilitate this process.

**(iii) The Doha Development Round**

149. Argentina has actively participated in the Doha Round negotiations and continues to be fully committed to the conclusion of the negotiations with a view to balancing and strengthening the multilateral trading system.

150. The paralysis of the negotiating process is a constant concern. It is important to point out that the alternative approaches envisaged as a means of escaping from this situation must conform to the Doha mandate and the "single undertaking" principle in order to ensure a balanced result. It should also be stressed that plurilateral approaches go against the principles of inclusiveness and multilateralism and are therefore unacceptable. This position was incorporated in the Ministerial Declaration of the "Friends of Development", signed on the occasion of the WTO's Eighth Ministerial Conference in Geneva in December 2011.

151. Agriculture should be central to the negotiations because of its contribution to development, as recognized in the Doha Declaration. It is necessary to eliminate the discriminatory, distortive and protectionist policies that are affecting this sector and restricting the opportunities for industrialization and for adding value to primary production in the LDCs, thereby holding back their development process.

152. In fact it is the traditional distortive measures (high tariffs, tariff escalation, quotas, export subsidies), adopted mainly in the developed countries, that are the ones really responsible for the problems of international trade. The imbalance caused by the accumulation of traditional protectionist measures is now being aggravated by the proliferation of scientifically unjustified sanitary, phytosanitary and technical barriers.

153. Argentina has warned about the increasing proliferation of measures of this kind, which are seriously affecting the export potential of numerous developing countries. Lack of scientific evidence tends to be the main cause for complaints against import restrictions such as unjustified delays, deviation from international standards, discretionary labelling systems, and/or discriminatory treatment of new technologies such as biotechnology.

154. These restrictions are affecting the development of many countries that export agricultural products, mainly the small producers which find it virtually impossible to adapt to the unjustified requirements of many markets. All this is discouraging production and innovation in the food markets and compromising global food security.

155. In these circumstances Argentina believes that the Doha Round negotiations should prioritize the achievement of an ambitious result in Agriculture, with special emphasis on obtaining effective improvements in the competitiveness of those countries with a greater potential for developing this activity. To achieve an open trading system that stimulates the expansion of production it will be necessary to concentrate on fulfilling the Doha agricultural negotiating mandate, an essential precondition not only of many countries' development but also for achieving food security.

156. Likewise, Argentina attaches vital importance to the negotiations on market access for non-agricultural products (NAMA). A limit on possible undertakings in this respect is laid down in paragraph 24 of the Hong Kong Ministerial Declaration, which establishes the need for a balanced level of ambition in the negotiations on market access for Agriculture and NAMA.

157. In this context, Argentina considers it fundamental for the developing countries to be able to preserve their own space for the implementation of policies aimed at maintaining levels of employment and social stability, objectives of self-evident importance in the current economic and financial crisis.

158. At the same time, the principles of less than full reciprocity and special and more favourable treatment for the developing countries, in the form of lower tariff reductions and flexibilities in exempting products from reduction commitments, are regarded as essential pillars of an ethical negotiating process.

159. In the area of services, Argentina made an important contribution to their liberalization during the Uruguay Round. Any progress made in this area must be transparent, inclusive and faithful to the Doha mandate, and include equivalent treatment for industrial and agricultural services.

160. With respect to the other negotiating areas, special importance is attached to the elimination of fisheries subsidies, an issue which, in addition to its commercial importance, is of fundamental significance for the environment and food security.

**(iv) Surveillance and transparency**

161. Argentina has been constructively collaborating in the preparation of the reports on the trade measures applied by WTO Members which, since 2009, have been drawn up by the Director-General, given the importance of this monitoring exercise agreed in the wake of the international economic crisis.

162. However, it should be pointed out that these reports have shortcomings which could be remedied by taking into account the proposals made by Members for their improvement, including those made on various occasions by Argentina. In this connection, the following concerns have been expressed:

- a. In the reports up to 2012, only measures applied since 2008 were taken into account, without considering measures implemented in previous years whose distorting effects on world trade are still apparent and still disturbing the normal terms of competition.
- b. The reports stress certain trade measures which they describe as "restrictive" when, in reality, they constitute legitimate tools of trade policy compatible with WTO provisions, imposed in some cases for the purpose of correcting practices that distort international trade, such as anti-dumping measures, countervailing measures, import licences or specific customs procedures. On the other hand, the reports do not include the economic stimulus packages applied by the developed countries, which do disturb the normal business of trade and have not been notified to any of the WTO's regular committees. This clearly reflects a lack of balance in the reports.
- c. Some of the measures included in the reports have as their only source certain information published in the press or on websites which in some cases does not match up with any existing law or regulation. Moreover, the information published only concerns measures with

little impact on trade, generally imposed by developing countries, without mentioning measures that heavily distort international trade, such as the bailout measures and fiscal stimulus packages which the developed countries have adopted for the benefit of banks and businesses. A request has therefore been made for the reports to contain only information coming from official government sources.

163. These concerns have been partially taken up in the latest reports for 2012; nevertheless, there is still much that could be improved. Argentina hopes that the incorporation of these suggestions in future reports will result in a higher degree of objectivity and transparency.

### **(3) ARGENTINA AND REGIONAL INTEGRATION**

#### **(i) Argentina and MERCOSUR**

164. Argentina regards the Southern Common Market (MERCOSUR) as a central strategic project in its foreign policy and an important platform for promoting its further international integration. Since the signing of the Treaty establishing MERCOSUR (1991 Treaty of Asunción), this regional integration agreement has become the priority regional integration objective of Argentina's foreign trade policy. At the same time, MERCOSUR constitutes a key instrument for improving conditions of access for Argentine exports to other markets within and outside the region.

165. Argentina is playing an active role in the process of building MERCOSUR and its participation in this regional integration project means that some of its trade policy decisions are defined at MERCOSUR level. Specifically, trade issues concerned with Argentina's relations with other, non-MERCOSUR, countries are covered by commitments undertaken at regional level.

166. In the more than 20 years since its formal creation, MERCOSUR has made substantial progress towards achieving its objective of establishing a common market, which requires the consolidation of a customs union. The advances made include the effective application of the Common External Tariff (CET) in most areas of trade with the rest of the world, with a reduction in the number of products included in the national lists of exceptions and the harmonization of various trade policy instruments.

167. In 2010, in connection with the free movement of goods within the customs union and with a view to the future elimination of double charging of the common external tariff and the distribution of customs revenue<sup>8</sup>, a substantial advance was made with the approval of the MERCOSUR Customs Code (MCC) by Decision CMC No. 27/10.

168. Once it has been approved by the parliaments of the four States Parties, this "Framework Code" will make it possible to adopt common customs legislation, which will result in benefits for numerous economic agents and unify the procedures applied by the customs administrations of the States Parties.

169. As regards the interconnection of electronic customs systems, the Customs Records Information Exchange System (INDIRA) has been developed to centralize consultation of the customs systems currently in operation in each State Party (Argentina-Maria, Brazil Siscomex,

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<sup>8</sup> Decision CMC No. 10/10 laid down guidelines for the full implementation of the elimination of double charging of the CET, the distribution of customs revenue and the online interconnection of electronic customs management systems. The corresponding regulations are being examined within the Common Market Group.

Uruguay-Lucia, Paraguay-Sofia) for the purpose of exchanging information from their respective customs records.

170. Moreover, in 2010, Decision CMC No.17/10 on the MERCOSUR Single Customs Document (DUAM), which establishes a single official model for registering declarations for customs procedures and operations within MERCOSUR, was approved on the basis of a draft put forward by Argentina. This document seeks to standardize the information used by MERCOSUR customs administrations in their customs computer systems.

171. Another advance in computerization is the International Customs Transit Computerized System (SINTIA) aimed at digitalizing the manual land cargo system which currently operates through the paper input of International Cargo Manifests (ICM/CTD) and/or International Parcel Manifests (*Manifiesto de Encomiendas Internacional (MIE/CTD)*). The purpose of this system is to allow real-time access to the information in question. During the first half of 2012 the bilateral pilot test developed jointly by Argentina and Paraguay was continued and, at the same time, advances in implementation at regional level were consolidated.

172. Work has also been done on the Digital Certificate of Origin (COD), including in particular the publication of MERCOSUR Standard CCM/DIR. No. 04/10, which gives certificates of origin issued and signed electronically the same legal validity and the same value as paper certificates. Although some States Parties have made less progress than others, since 2010 the signing of legal instruments of bilateral scope has been encouraged so as to make it possible to commence the pilot tests necessary for the effective implementation of the system (Project SCOD).

173. In this connection, it is worth recalling the approval of the procedures and technical specifications of the LAIA Digital Certificate of Origin (ALADI/CR/Resolution 386 of 4 November 2011). The member countries are currently working on the operational and homologation aspects of the system and have reached different stages in the process. Within this context, Argentina and Chile have agreed to initiate the activities necessary to start implementing a bilateral test plan with a view to carrying out external homologation under the terms of Resolution CR/386.

174. Progress has also been made in integrating production, through promotion of balanced industrialization among the partners. To that end, meetings are encouraged between entrepreneurs from the four countries to define alternatives in respect of regional production complementarity and to cooperate with governments in identifying the changes in public policy necessary to intensify this process. In this connection, work is proceeding on the Competitiveness Forum Programme, with the aim of identifying areas in which regional industrial complementarity favours a greater degree of specialization to improve efficiency and, through concrete measures, to make MERCOSUR products more competitive in the international market.

175. Similarly, studies and projects are being conducted on investment in infrastructure in MERCOSUR and its associate countries, as well as on highway and energy integration, development of port facilities and a revival of shipbuilding. In view of the differences in levels of development within MERCOSUR, the question of structural asymmetries has become an increasingly relevant issue on the agenda for deepening the integration process, especially since 2003.

176. Within this context, it is worth noting the creation of the MERCOSUR Structural Convergence Fund (FOCEM), which began to function in 2006. This is the first community

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mechanism to permit a net transfer of resources from the larger to the smaller MERCOSUR economies.

177. The Fund is intended to finance programmes to promote structural convergence, develop competitiveness and foster social cohesion, particularly in the smaller economies and less developed regions, and to support the functioning of the institutional structure and strengthen the integration process.

178. In 2010, the MERCOSUR States Parties decided to revise the MERCOSUR Protocol on Government Procurement. With this instrument MERCOSUR is seeking to equip itself with a tool that can be used to improve the transparency of government procurement on the basis of the MFN clause and the granting of national treatment for a significant percentage of tendering procedures in respect of goods, services and public works.

179. As a result of the liberalization of the services sectors under the Montevideo Protocol on Trade in Services, at the end of 2009, the Common Market Council approved the "Seventh Round of Negotiations on Specific Services-Related Commitments".

180. Deeper institutionalization of the integration process is an ongoing objective and, in this connection, it is worth noting the operation of the Permanent Review Court (TPR), established under the Olivos Protocol for the Settlement of Disputes within MERCOSUR, approved on 18 February 2002.

181. In addition to acting as the sole instance in certain cases, the TPR reviews the decisions of the Ad Hoc Arbitration Courts which hear the case in the first instance and thus bears a certain resemblance to the Appellate Body provided for in the WTO Understanding on Rules and Procedures Governing the Settlement of Disputes. The aim in establishing the Permanent Review Court was to foster the uniform interpretation of the entire body of MERCOSUR legislation and establish a common jurisprudence, so as to strengthen the institutional framework of MERCOSUR and give it greater legal certainty.

182. Another important aspect of the institutionalization of MERCOSUR is the effective establishment of the MERCOSUR Parliament, the body representing the peoples of MERCOSUR, as a common forum reflecting the pluralism and diversity of the region and contributing to democracy, participation, transparency and social legitimacy in the development of the integration process and its regulations.

183. It is also important to note the role played by the Committee of Permanent Representatives of MERCOSUR in consolidating the integration process. This body proposes concrete measures with a community focus to enhance social, political and parliamentary relations within MERCOSUR and is notable for the part it played in the genesis of the MERCOSUR Structural Convergence Fund (FOCEM), which has proved an excellent tool for reducing asymmetries between the MERCOSUR economies.

184. A more recent development is the creation of the post of High Representative of MERCOSUR by Decision CMC No. 63/10, for the purpose of giving impetus and depth to the integration process. Moreover, rules have been enacted to step up the process of transforming the MERCOSUR Secretariat into a body with technical and not just administrative functions and to improve the regulations relating to personnel recruited by the Secretariat and other MERCOSUR bodies (Decisions CMC Nos. 03/12 and 04/12).

185. By fostering and following up all these actions, Argentina is promoting progress in the development and intensification of regional integration and the achievement of the main goal of the Treaty of Asunción, which is the establishment of the common market.

186. Lastly, it is worth noting the first enlargement of MERCOSUR through the accession of Venezuela. The terms and conditions of accession were set out in the Protocol of Accession of the Bolivarian Republic of Venezuela to MERCOSUR, signed at presidential level by the five countries on 4 July 2006 and in force since 12 August 2012.

187. Under Decision CMC No. 27/12, the Bolivarian Republic of Venezuela acquired the status of State Party and is participating in MERCOSUR with all rights and obligations, in accordance with Article 2 of the Treaty of Asunción and under the terms of the Protocol of Accession. The Ad Hoc Working Group set up by Decision CMC No. 12/07 is working on the effective conclusion of Venezuela's process of accession to MERCOSUR, in line with MERCOSUR's governing principle of gradualism.

188. It is also necessary to point out that when democratic order broke down in Paraguay as a consequence of the removal from office of President Lugo on 22 June 2012, Argentina, Brazil and Uruguay decided to suspend the Republic of Paraguay's right to participate in MERCOSUR bodies and discussions, pursuant to Article 5 of the Protocol of Ushuaia on Democratic Commitment in MERCOSUR.

189. The Protocol provides for the application of measures as a result of the breakdown of democratic order in one of the States Parties. The measures may range from suspension of the right to participate in the various organs of the respective integration processes to suspension of the rights and obligations stemming from those processes.

190. The suspension adopted is limited to restricting participation in MERCOSUR deliberations and in the decision-making process, it having been agreed that this should not affect the wellbeing of the people of Paraguay and an express guarantee having been given that the FOCEM projects relating to Paraguay would be continued. Under Article 7 of the Protocol of Ushuaia, the measures to which Article 5 relates will be terminated when the other States Parties agree that the full re-establishment of democratic order has been verified.

## **(ii) The LAIA and extra-regional agreements**

191. In accordance with the provisions of the Economic Complementarity Agreements (ECA) that Argentina, as a MERCOSUR State Party, has signed within the framework of the Latin American Integration Association (LAIA), Administrative Commission meetings were held in connection with ECA No. 35 (MERCOSUR-Chile), ECA No. 36 (MERCOSUR Bolivia), ECA No. 55 (MERCOSUR Mexico), ECA No. 58 (MERCOSUR Peru), ECA No. 59 (MERCOSUR Venezuela, Colombia and Ecuador), and ECA No. 62 (MERCOSUR Cuba). A meeting of the Administrative Commission for ECA No. 6 (Argentina Mexico) was also held.

192. Between 2006 and 2011, Argentina, as a MERCOSUR State Party, signed trade agreements of differing scope with third countries. Some of these are already in force while others are awaiting parliamentary ratification. Moreover, discussions are being held with other countries with a view to strengthening trade relations.

193. The Fixed Preferences Agreement between MERCOSUR and SACU (Southern African Customs Union) was signed in December 2008. It was signed by the SACU Ministers in Lesotho



on 3 April 2009. This Agreement has not yet entered into force since the process of ratification by the parliaments of all the signatory states is not yet complete. The Agreement (which provides for preference levels of 10%, 25%, 50% and 100%) will cover approximately 1,900 tariff items.

194. The Fixed Preferences Agreement between MERCOSUR and India was signed in January 2005 and entered into force on 1 June 2009. This provides for preferential access to trade in goods for around 450 tariff items. Concessions are granted by means of fixed tariff preferences with levels of 10%, 20% and 100%. Two meetings of the Joint Administration Committee have been held within the framework of the Agreement.

195. Where Free Trade Agreements are concerned, on 18 December 2007 a Free Trade Area Agreement was concluded between MERCOSUR and the State of Israel. At the time, the Agreement was the first and only extra-regional trade agreement and represented a further advance in the international integration of the MERCOSUR countries. It provides for the formation of a free trade area for goods under a Trade Liberalization Programme (TLP) to reduce tariffs within a maximum of ten years, with certain exceptions (4% of the respective tariff universe). On 16 March 2011, the National Congress approved this Agreement, under Law No. 26.670, which entered into force between Argentina and the State of Israel on 9 September of that year.

196. The Free Trade Agreement between MERCOSUR and Egypt was signed on 2 August 2010. The Agreement provides for the establishment of a free trade area for goods under a Trade Liberalization Programme (TLP) to reduce tariffs within a maximum of ten years, with certain exceptions (4% of the respective tariff universe) for which no tariff reduction is envisaged. This Agreement has not yet entered into force as it is still in the process of being ratified by the national parliaments.

197. Finally, on 20 December 2011 a Free Trade Agreement was signed between MERCOSUR and Palestine. This Agreement will have to undergo the process of parliamentary ratification in all the Signatory Parties before it can enter into force.

198. The negotiations for a Free Trade Agreement between MERCOSUR and the European Union are part of the Inter-Regional Association Agreement signed by the Parties in 1995 and in force since 1999. They were relaunched in May 2010 after a six-year interruption starting in 2004. These negotiations are based on a set of three pillars - together with cooperation and political dialogue issues - which form constituent parts of the Agreement.

199. The trade pillar negotiations are being conducted in the framework of the Bi-Regional Negotiations Committee (BNC), the last meeting of which was held in Brasilia from 22 to 26 October 2012. Within the BNC, 11 working groups are holding meetings on the various topics and regulatory aspects to be covered by the future Agreement, namely: Market Access for Goods; Rules of Origin; Technical Barriers to Trade; Sanitary and Phytosanitary Measures; Intellectual Property Rights/Geographical Indications/Wines; Dispute Settlement; Trade Protection; Competition Policy; Customs; Services/Establishment and Government Procurement.

#### **IV. CONCLUSIONS**

200. During the review period Argentina expanded the model of economic growth with social inclusion as well as increased competitiveness, based on active and integrated policies, and developed production by means of a sustainable and genuine improvement in competitiveness, while generating quality employment and a steadily rising standard of living.

201. Even in an unfavourable international environment, characterized by the international crisis that began in 2008, the action taken resulted in high rates of economic growth and substantial improvements in the social indicators, underpinned by a vigorous policy of wage recovery and stronger domestic demand.

202. The increased activity not only kept pace with the growth in domestic demand but was also sufficient to supply foreign markets. In fact, the policies aimed at improving competitiveness, together with an active trade promotion policy, revitalized exports, resulting in the incorporation of new markets, the participation of more businesses, and the diversification of the export basket. In its turn, the sustained increase in exports made it possible to generate a trade surplus which helped to improve the balance of payments and the sustainability of economic policy.

203. Where trade policy is concerned, Argentina continued to implement a series of initiatives aimed at expanding and improving its integration in international trade, through active participation in the various integration organizations, forums and agreements at multilateral and regional level.

204. At multilateral level, it reaffirmed its commitment to the multilateral trading system and continued striving to achieve a more open (particularly in the agricultural sector), non-discriminatory system that takes into account the needs and interests of the developing countries.

205. The active participation of Argentina's representatives in the regular activities of the World Trade Organization, in the Doha Development Round negotiations, and in the Group of 20 (G-20) is a true reflection of this commitment.

206. At regional level, Argentina attaches vital importance to MERCOSUR, which it regards as a key strategic foreign policy project and an essential platform for improving the conditions of access for Argentine exports to other markets, within and outside the region.

207. During the review period, Argentina worked hard to strengthen the process of building the Common Market, while concluding trade agreements with a view to intensifying trade.

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