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UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION
Vienna International Centre, P.O. Box 300, 1400 Vienna, Austria
Tel: (+43-1) 26026-0 · www.unido.org · unido@unido.org

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INDUSTRIAL PROMOTION AND THE CAPITAL GOODS SECTOR 1/

by

Carlos Posse
Ministry of Industry and Mining
of the Argentine Republic

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considerations are appropriate in some cases, they are not the only ones which have a bearing on the best location of industrial enterprises. In fact, some other factors playing a part, such as capital or the market for which the product is intended should be taken into account. In addition, the secondary effects on the input side (establishment of vertically integrated industries) or the multiplier effect on the market in the area were not always taken into consideration.

Although sectoral policy partially achieved its aims, therefore, the regional policy made little impact, except in the case of Patagonia, where a number of enterprises were set up, particularly in the textile sector, most of which carry out the final stages in textile processing.

Promotion in the period 1966-1969

From 1966 onwards, efforts were made to consolidate the promotion of some sectors producing capital goods, which, as has been pointed out, were mainly types of goods used in agriculture and services, although the main promotional emphasis was on basic industry. Thus, the foundations were laid for the establishment of one or more newsprint and solvay soda plants in the context of efforts to continue import-substitution with respect to intermediate goods. The petrochemical industry, iron and steel and domestic production of aluminium also received special attention, in the form of increased intervention by the State, which either assumed direct responsibility for production or, when contracts were put out for tender, or awarded directly, laid down in detail the way in which enterprises were to operate and the promotional benefits to which they were entitled. This was justified in view of the fact that most of the projects concerned were of a monopoly type.

In fact, an impasse had been reached with regard to the new orientation considered advisable for economic policy concerning industry. The debate on the subject which also invaded the academic sphere, revealed two clearly divergent approaches. One of these, the "development" approach, held that the import-substitution process should be continued, particularly in the basic sectors of industry and transport, with the construction of infrastructure

being simultaneously intensified. The other, known as the "efficiency" approach, held that the import-substitution process had been exhausted and that the new industrial policy should therefore be directed towards increasing the operating efficiency of industry which had already been established and alleviating balance-of-payments problems by means of an energetic policy of promoting exports of industrial goods. While the former approach called for the promotion of new industries and reduction in protective barriers for existing ones, the latter, on the contrary, placed its full emphasis on promoting, and at the same time requiring better results from, the industry which had already been established. It must be noted, however, that neither of the two approaches stressed the need to promote the production of capital goods. The alternatives were reflected to some extent in the economic leadership, and although neither of the two approaches was implemented to its full extent, features of each were adopted at various times, as is shown by the attempt to provide incentives for the establishment of enterprises in the basic industries, on the one hand, and the increase in tax refunds on exports and the reduction in levies on equipment imports for the benefit of selected sectors (Decree No. 1756/68), on the other.

From the regional point of view, the innovation was the promotion scheme for Tucumán Province, which met with fair response from investors.

Promotion from 1970 onwards

Beginning in 1970, effective measures started to be taken under Decrees Nos. 604 ff. for the protection of domestic producers of capital goods, culminating in the system, under which import licences have to be obtained in advance to ensure payment of the minimum duty now in force.

Apart from the law on modernization of the automobile industry, most of the legal instruments approved were of a general nature (in contrast to the purely sectoral or regional ones) and sometimes covered other, non-industrial activities.

An analysis of these instruments also shows an emphasis on aspects relating to the promotion and protection of industry financed by domestic capital, and within that category, of small-scale and medium-sized enterprises; increased State control of foreign investment capital, with regard to location and transfer remittance of profits, promotion and protection of technology of domestic origin and promotion of non-traditional exports.

Sectoral and regional promotion continued to be carried out primarily on the basis of Decrees Nos. 3113/64 (promotion), 5339/63 (equipment), 4271/69 (petrochemicals) and 200/68 (Tucumán operations), which were the only ones permitting the establishment of new enterprises in addition to those already in existence. The decree on Tucumán operations was up-dated in 1972 so that the establishment of industries in the area could be continued.

As regards basic industries, further steps were taken to carry out the operations necessary for setting up the various industrial complexes which had been envisaged in the previous period.

Promotion of capital goods

It can be seen from the foregoing that except in a few cases promotion of capital goods was not undertaken by means of direct action to develop and consolidate the sector. The basic method adopted was tariff protection, which did not always fulfil its purpose owing to defects in application. Measures favouring imports of machinery for existing sectors or sectors intended to produce substitutes for certain imports (final and intermediate goods) were one of the main tools used, in some cases to the detriment of domestic producers of these goods. On the other hand, the fact that the provisions were liable to change encouraged speculative buying in excess of enterprises' real requirements. This did not, however, always work to the benefit of those enterprises, which, owing to the heavy commitments made, found themselves heavily dependent on the economic cycle and the devaluations of the peso. Such situations arose during the depression of 1962-1963 and the devaluation of 1967, which primarily affected enterprises that had foreign currency debts.

The reluctance of many State agencies and enterprises to purchase domestic capital goods made it necessary to pass the "Buy Argentine" law in 1963 and the "Buy Domestic" law in 1970, in order to channel State purchasing toward the domestic market. Lastly, credit measures designed to facilitate purchases of domestic equipment were not always applied as flexibly as they might have been.

In recent years, although no special promotion measures have been adopted, there has been a gradual orientation of policy to the benefit of producers of capital goods. The "Buy Domestic" law, which promotes State procurement from domestic enterprises, the law on transfer of technology and the system of prior import licences clearly show this. A definitely favourable attitude is also shown towards the capital goods industry in the

National Development Plan for 1971-1975, which was approved by Law No. 19039 of 14 May 1971, and the National Policies included in Decree No. 46 of the Junta of Commanders-in-Chief of 17 June 1970. Of these, National Policy No. 72 provides that, in setting up the system of industrial promotion, as regards protection and incentives, the following, among others, will be considered manufacturing industries (for reasons of security):

- 381 Shipbuilding and repairing
  - Building of merchant ships.
- 360 Manufacture of machinery, except electrical
  - Road-building machinery
  - Machine tools
  - Equipment for the petroleum industry
  - High capacity pumps and compressors.
- 383 Manufacture of motor vehicles
  - Heavy lorries and chassis for long-distance coaches.
- 370 Manufacture of electrical machinery, apparatus, appliances and articles
  - Electric motors and generators, more than 100 kva
  - Transformers, more than 6000 kva
  - Electronics and communications.

The National Development Plan, in the chapter concerning the manufacturing industry deals explicitly with the need to develop the production of capital goods, increasing the range of products with technical specifications which meet the country's needs and encouraging technical progress, but not for that reason ceasing to import highly sophisticated equipment which it would be uneconomic to produce locally. Some of the sectors specifically listed for promotion are:

- Shipyards
- Railway rolling stock
- Farm machinery and tractors
- Heavy electrical machinery
- Machine tools.

Concerning each of these, measures are proposed with regard to both normal short-term development and long-term reorganization and expansion.

All these lines of action will have to be implemented by means of sectoral promoti instruments appropriate to the characteristics of the goods in question and in accordan with the standards laid down by the new industrial promotion law which will soon be app

MAIN INDUSTRIAL PROMOTION MEASURES

The main measures relating to industry taken since 1958 are summarized below.

These measures fall into three periods, namely, 1958-1965, 1966-1969 and 1970 to he present. The analysis is therefore primarily chronological; This division has een adopted because the measures adopted in each period followed a more or less ommon trend, the essential features of which were described in the first part of this paper

It is intended in this way to inform the reader succinctly concerning what ccurred in the period in question and make it easier for a reader interested in a articular subject to find out what the main legal instruments were.

The list does not pretend to be exhaustive, and most of the provisions relating o operational details of the various arrangements have purposely been omitted. rovisions on development adopted at the provincial level, which owing to their scope nd complexity are beyond the limits of this paper, have also been excluded.

1958-1965

oreign investment and general promotion

Law No. 14780, adopted at the end of 1958, laid down guidelines for foreign investent, priority sectors and means for promoting foreign investment. Preference was iven to investment which would lead to the processing of domestic raw materials for ndustry, to the production of capital goods or to the promotion of economic integration n the country.

Law No. 14781 of 1959 introduced rules and machinery for industrial promotion. hong the measures which the Executive was empowered to take were: exemption from ustoms duties and supplementary charges with a view to facilitating imports of achinery and equipment which could not be supplied by domestic industry; credit and ax measures; and special development prices.

This law governed industrial promotion until Law No. 18587/70 was passed, in her words it remained in force throughout the 1960s. Its implementation was egulated at first through individual decrees on sectoral and regional promotion.

The sectoral promotion decrees covered iron and steel (No. 5338/61), petrochemical (Nos. 5039/61 and 2080/62), cellulose (Nos. 8141/61 and 2077/62) and afforestation (No. 2079/62).

All these decrees were basically designed to ensure that the sectors in question were quickly supplied with equipment. The main incentive established was therefore exemption of the equipment concerned from import duties when domestic industry was not satisfactory in quantity, quality and price. In addition, the Executive was empowered to take the necessary steps to grant guarantees and endorsements for financing the import of capital goods, so that facilities for purchase abroad were expanded, and tax incentives were also introduced.

As regards regional promotion, decrees were issued on Patagonia (Nos. 6130/61 and 2325/62), the North-West (Nos. 9477/61, 2078/61 and 1316) and Corrientes (No. 1132

This promotion was intended to bring about the industrial utilization of raw materials in their places of origin, although the so-called basic industries were also included.[3] Here too, in addition to tax and credit incentives, duty free imports of equipment for the regional activities which were being promoted also played a part.

Owing to the complexity and difficulty of implementing the various promotion decrees which had been issued separately, an effort was made in 1963 to unify them. For this purpose, Decree No. 5338/63 on industrial promotion was issued; it became the decree regulating the application of Law No. 14781, which embraced some aspects of Law No. 14780, in that it laid down a uniform procedure to be followed by domestic and foreign enterprises when applying for the benefits offered.

3/ The full list of promotional activities in the areas included: the chemical industry, the petrochemical industry, metallurgy, fisheries and the related cold-storage industry, the regional meat and stock-raising by-product industry with the related cold-storage industry, the industrial utilization of fruit and vegetables (excluding alcoholic beverages) and fruit or seed oils, mineral extraction and processin industries (excluding petroleum, gas and by-products), the wood industry in general, the extraction of vegetable waxes, vegetable or animal fibre textile industries, chemical industries, tanning, tobacco processing, construction, ceramics and glass, and cold storage.

Under the new provisions, the construction industry and some types of mineral production were added to the activities which were already being promoted, and the range of activities being promoted in the individual regions was expanded.

Promotion of the iron and steel industry

Law No. 12987/47 lays down basic guidelines for the Argentine Iron and Steel Plan. The primary purposes of the plan are to produce steel at the lowest prices, maximizing the utilization of Argentine inputs in its manufacture, and to promote the establishment of plants to work and finish steel products.

In order to achieve these purposes, Decree Law No. 1052/58 set up the Fund for Implementation of the Argentine Iron and Steel Plan, which was to be constituted with revenues from the supplementary customs duties established by Decree Law No. 3762/68.4/

As has been said, in June 1961, Decree No. 5038 on promotion of the iron and steel industry was issued, containing the regulations for the implementation of Laws Nos. 12987 and 14781. It granted a number of incentives, including exemption from import duties on machinery and equipment for this industry, tax deductions, preferential supply of raw materials, energy, fuel and transport by Government agencies and State-owned enterprises and authorization of the Executive to endorse and guarantee foreign loans.

This decree was abrogated by Decree No. 1081/63, and its expanded provisions were incorporated into Decree No. 3113/64.

Promotion of the petrochemical industry

Between 1958 and 1959, a group of international enterprises proposed the construction of a petrochemical complex to the Argentine Government. The project was to produce synthetic rubber, styrene, ethylene, propylene, benzene, dodecyl-benzene, sodium sulphonate, caprolactam, adipic acid, ammonium sulphate and fuel. It was also to supply itself with intermediate products. Since export of these products was contemplated, it was necessary to be able to obtain raw materials at prices comparable to international prices so as to be able to compete in foreign markets.

4/ Later amended by joint resolution No. 565/67 of the Ministries of Economic Affairs, Labour and National Defence and the Secretariats of Industry, Trade and Mining.

In 1960, capital amounting to $60 million was authorized by Decree No. 2154, which also established an agency to take charge of the operation of the complex, and fixed 36 months as the period within which the plant was to become fully operational.

In the following year, Decree No. 245 increased the capital to $70,250,000, of which $67 million were earmarked for Petroquímica Argentina S.A.

The firm was given permission to import equipment which was not produced in the country in acceptable quantities and qualities and at suitable prices, on the basis of prior authorization by the Ministry of Economic Affairs.

Decree No. 7111/61 granted it the benefits provided for under Decree No. 5039/61 on the promotion of the basic petrochemical industry.

This decree exempted it from payment of income tax, excess profits tax and stamp tax; it deferred payment of the substitute tax on the free transfer of goods for five years, declared the enterprises concerned to be of national interest, authorized entry into the country of foreign personnel required to carry out production plans and gave the firm the right to obtain raw materials from State-owned enterprises or Government agencies at special development prices.

The plant started to operate in 1966, various pieces of legislation having been adopted in the meanwhile to establish the conditions governing its activities.

Tractors, internal combustion engines, shipbuilding and the automotive industry

During the period under consideration, therewere, in addition to the schemes mentioned above, four other important ones covering the tractor industry, the automotiv industry, the internal combustion engine and shipbuilding and ship repair.

The scheme covering tractors in fact dates from 1957 and was set up under Decrees Nos. 15385 and 15386, but since it entered into force on 1 January 1958, it is included in this period.

Under this scheme, a system governing imports of parts was established which provided for their gradual replacement by domestically produced parts and for tax incentives or production bonuses (i.e. subsidies), financed by funds administered by the Council of the Tractor Industry.

One of the functions of this Council was to establish import quotas for tractors in the light of market requirements. That meant that tractors could not be imported automatically.

The shipbuilding sector also enjoyed special treatment under a number of provisions encouraging its activity. In 1958, the shipbuilding credit law was passed, and the regulations pertaining to it were promulgated in 1960 by Decree No. 4904. This decree encourages the building, renovation and repair of ships flying the Argentine flag in Argentina. In 1959, Decree No. 3136 exempted imported materials, equipment and machinery for the building, renovation and repair of ships from the payment of import duties whenever they were not produced in the country. In 1960, a scheme of subsidies to domestic shipyards was introduced to improve their ability to compete with their foreign counterparts in the category of ships of more than 3,000 tonnes gross dead weight.

The scheme covering internal combustion engines (Decree No. 6651/60) provided primarily for the granting of permits for the import of parts for such engines under preferential tariffs.

The arrangements for promoting the automotive industry, which only covered enterprises producing finished vehicles,[5/] was introduced by Decree No. 3693 of 1959. Compliance was obligatory for enterprises which had already been set up or were later set up (producers of automobile parts were excluded).

The scheme permitted the import of machinery and equipment, provided domestic industry could not supply them in the required quality and according to the required schedule. The main advantage was the right to import parts at a rate of duty of 40 per cent on a figure ranging from between 30 and 45 per cent of vehicle value in the first year to 10 per cent in the fifth year. Special encouragement was given for passenger cars and lorry chassis of up to 7,000 kg maximum capacity.

All the decrees mentioned were subsequently developed or adjusted to individual circumstances by other decrees and resolutions.

5/ It was not planned to regulate the parts industry.

Equipment

The year 1959 saw the introduction of Decree No. 13277 establishing exemptions fo the import of machinery and equipment making up production lines or those which, although consisting of independent elements, went to make up an integrated entity. Article 2 of this decree provided that the exemption should apply to any production line, even if it included elements produced by domestic industry, as long as the line did not consist primarily of such elements.

This decree gave rise to an avalanche of imports of equipment, and its applicatio was therefore suspended in 1962, owing to the balance-of-payments difficulties and economic depression. The application of Decree No. 8620/60, which permitted the duty-free import of used machinery, was also suspended.

In 1963, Decree No. 5[illegible]39 on equipment priority granted duty exemptions for import of industrial equipment on more liberal terms than those provided for by earlier schem

Projects for the establishment or expansion of industrial plants had, as a whole, to meet the following requirements:

(a) The investment should bring about technical and technological improvements and make possible an increase in domestic production and an improvement in quality or reduction in cost;

(b) It should involve greater direct or indirect utilization of domestic raw materials or semi-finished products;

(c) It should result in an improvement in the trade balance through import-substitution or the development of new exports;

(d) It should improve the foreign financial balance by means of a sufficient improvement in the trade balance (see preceding point) in relation to the plant's financial commitments, remittances of profits in accordance with expected profitability, royalties and foreign loans or the repayment of capital invested, the schedule for which should be related to the schedule for the amortization of equipment;

(e) It should have circulating capital in proportion to the investment;

(f) It should, either directly or indirectly, guarantee stable sources of employment as a result of having reliable markets;

(g) Production costs should be reasonable in comparison with international prices and the products should help to increase domestic competition;

(h) The levels of customs protection required for developing this activity should be comparable with those in industrialized countries.

Investments of foreign capital taking place under the terms of Law No. 14780 could enjoy the incentives afforded by this decree.

This system governing the import of equipment was supplemented by various provisions regarding credits laid down by the Central Bank of the Argentine Republic, including Circular RC No. 196, which provided for preferential amounts and payment schedules.

New industrial promotion scheme

In 1963, the decrees on the promotion of iron and steel, forestry and fisheries and Decree No. 5338/63 on industrial promotion were abrogated by Decree No. 1081. However, the promotional vacuum caused by the repeal of the above decrees (only Decree No. 5339 remained in force) was filled in 1964 by Decree No. 3113/64, which, together with Decree No. 5339, has remained in force to the present time.

This decree governs regional and sectoral promotion as a whole.

The incentives granted relate primarily to taxes. In accordance with Decree No. 5339/63, equipment continues to have priority, but in the case of the iron and steel industry, the exemption from customs duties is extended to cover accessories, spare parts, raw materials and fuels. In view of the importance of this decree, some of the relevant portions of it are given below.

III. Areas for special promotion

Article 4

The following shall be areas for special promotion:

Area A:

The area lying to the south of the river Colorado and its tributary, the river Barrancas; the departments of Puelén, Curaco, Lahueil-Calel and Caleu-Caleu in La Pampa Province; and the department of Malargüe in Mendoza Province. All these shall be defined by their present boundaries.

Area B:

This area shall include Catamarca, Jujuy, La Rioja, Salta, Santiago del Estero, Tucumán, Chaco and Formosa Provinces; the departments of Sobremonte, Río Seco, Tulumba, Ischilín, Totoral, Cruz del Eje, Minas, Pocho, San Alberto and San Javier in Córdoba Province; the departments of Vera, 9 de Julio and General Obligado in Santa Fe Province; and the departments of Calingasta, Iglesias, Valle Fértil and Jáchal in San Juan Province. All these shall be defined by their present boundaries.

Area C:

This area shall include Corrientes Province, with the exception of the department of Ituzaingó, Santo Tomé, Esquina, Sauco and Curuzú-Cuatiá and also Eldorado, San Pedr Montecarlo, Capital Candelaria, Leandro N. Alem, San Javier and Oberá departments in Misiones Province. All these shall be defined by their present boundaries.

The exemptions laid down in article 7, paragraph 1 (a), shall be applied to the extent of 100 per cent in these three areas, both for activities covered by article 2 and for the area activities referred to in article 5.

IV. Area activities

Article 5

The following activities shall be promoted in the areas described in the precedin article:

(a) All activities in which natural products originating in the areas in questio are industrially utilized and/or activities which help to promote exports or further import-substitution;

(b) In particular, the following:

1. Impregnation, agglomeration, artificial drying and industrial utilization of wood, fibre and bagasse;

2. Processing of natural fibres at least as far as completion of spinning;

3. Tanning;

4. Industrial utilization and/or cold storage of foodstuffs;

5. Metallurgy;

6. Chemical products;

7. Ceramics or glass.

V. Exemptions

Optional scheme

Article 6

The enterprises or concerns covered by the present promotion scheme may choose to avail themselves of all the exemptions specifically listed in article 7, or else to take advantage of part of them, explicitly waiving those granted by paragraph 1, sub-paragraphs (a), (b) and (c), of the said article so that their investors may avail themselves of the tax incentives which are in that case granted them by article 8 of the present decree.

Incentives to the enterprise or concern

Article 7

The enterprises or concerns covered by this promotion scheme shall be entitled to the incentives listed below, provided that they apply to do so before 1 January 1969.6/ If they select the second alternative provided for in the preceding article, the provisions of paragraph 1, sub-paragraphs (a), (b) and (c), of the present article shall not apply to them.

Applications received during the first three months of validity of this decree shall be considered as a group by the Applications Authority in order to select the most suitable investments in the light of the various factors taken into account in planning the present scheme. This shall not affect consideration of all applications submitted after the date mentioned.

1. General incentives

(a) Reductions shall be allowed, for a maximum of ten fiscal years, in the amount to be paid as corporate income tax or special profits tax or tax replacing the charge on free transfer of goods, to the extent resulting from application of the percentages shown in the following scale and other provisions set forth below.

6/ The period was extended when Law No. 18587/70 was passed.

Fiscal year (Counting from starting up of the plant)	Percentage
1	100
2	100
3	100
4	100
5	85
6	70
7	55
8	40
9	25
10	10

This scale shall apply in full only for applications submitted before 1 January 196

The tax incentives applicable to enterprises or concerns being promoted may be excluded at the desire of the contributors from the compensation provided for in article of Law No. 11682 (1960) and its amendments.

Both the computation and the manner of payment provided for in this paragraph shall apply to present or future taxes which, under any name, supplement or replace those for which exemption is at present granted.

The enterprises or concerns covered by the present scheme whose activities take place in the areas for special promotion explicitly listed in article 4 shall enjoy 100 per cent of the reduction determined by application of the procedure laid down in paragraphs 1 and 2, whatever rate of exemption they may be entitled to by the nature of their activities.

In the case of expansion of an enterprise or concern, the tax incentives laid down above shall be granted only on the proportion of the enterprise or concern accounted for by this expansion, in accordance with the provisions laid down in this respect by the Directorate-General of Taxes.

(b) New enterprises or concerns may defer payment of the tax in place of the charge on the free transfer of goods for the fiscal years which end between the date of approval of the proposal by the Executive and the starting up of the activity promoted until the

general period fixed for submission of the sworn statement relating to the fiscal year in which the activity starts up has elapsed. In these cases, the amount owed shall be paid without interest, beginning when the period elapses, in equal and consecutive annual instalments which shall be equal in number to the number of fiscal periods over which payment has been deferred.

(c) Exemption shall be granted up to a maximum of ten years from the stamp tax on articles of association or their renewal, including increases in capital and the issuing of shares, provided that such action is taken for the same economic purpose as that for which the exemption was granted.

(d) Foreign personnel required for implementing the plans of an enterprise or concern shall be authorized to enter the country and remain in it temporarily with their families when the enterprise or concern in question so requests.

(e) There shall be priority for equipment, in accordance with the provisions of Decree No. 5339/63 and the present scheme.

(f) Special development prices shall be charged for gas, electric power and fuels, taking into account not only the amounts consumed, but also the location of these sources of energy in relation to the areas in which the energy will be used. Special development rates shall also be considered for the various transport systems.

2. Special incentives

(a) Iron and steel industry

1. Exemption from customs duties and surcharges on imports of machinery, accessories and spare parts, and also raw materials, fuels and materials imported for iron and steel plants, except where domestic industry produces these, and the quantities, qualities, delivery periods and prices are reasonable.

   The surcharges provided for by Decree No. 372/58 are not included among these exemptions.

2. For purposes of payment of corporate income tax and special profits tax, under the provisions of article 71 of Law No. 11682 (1960) and its amendments, two-thirds of the value of investment in fixed assets may be written off in the first half of their useful lives.

(b) Petrochemicals

A special development price, which shall be fixed by the Commission established by Decree No. 1215/ [illegible], shall be charged for the gas used by this industry as a raw materia

(c) Afforestation and reafforestation

The owners of forest plantations may convert them into "family property" under the provisions of Law No. 14394.

(d) Fishing

The fuel required for vessels engaging in fishing shall be available with the exemptions laid down in Decree No. 2[illegible]4/58 (bunker system).

Incentives to investors

Article 8

When enterprises or concerns opt for the second alternative referred to in article 6, the incentives laid down in paragraph 1, sub-paragraphs (a), (b) and (c) of article 7 are explicitly waived so that investors may take advantage of the following tax incentives: they may deduct from their income for the fiscal year part of amounts invested (direct contributions of capital or subscription to or purchase of shares) for the establishment or expansion of enterprises engaging in one of the activities promoted including the area activities, the proportions deductible being determined by paragraph of this article, provided the requirements laid down in paragraphs 2 to 4 and other relevant provisions are fulfilled.

1. The amount deductible shall be 70 per cent, 50 per cent or 30 per cent of the amounts invested, depending on whether the enterprise or concern has been granted an exemption rate of 100 per cent, 75 per cent or 50 per cent, respectively, provided the incentives granted to these enterprises under paragraph 1 (a) of article 7 have been opted for.

2. The investments must be made, at the latest, by the date fixed in each instance by the Executive for the starting up of the activity. Any extensions which might be granted beyond the original date shall be taken into account for this purpose only.

3. When shares are subscribed to, they must be purchased within one year of the date of subscription.

4. The investments concerned must not change ownership for at least two years.

The deduction authorized in this article must be taken in the fiscal year in which the investment is actually made and, as regards subscription to shares, in the fiscal year in which they are purchased.

The Directorate-General of Taxes shall lay down the supplementary provisions required for application of the exemption established in this article, especially as regards the way in which it shall be determined that the investments and payments for or deposits on shares have actually taken place during the period of time indicated in paragraph 4.

Export promotion

In order to encourage the incipient exports of non-traditional industrial products, various provisions which improve the competitive position of the Argentine producer were introduced in this period.

The first of these was Decree No. 614/60, which established the drawback relating to charges paid on the import of inputs and packaging materials. Exports of the products concerned were also exempted from payment of sales tax and other levies and port taxes. In 1962, under Decree No. 12913, tax refunds were added to the incentives, and lines of credit for financing non-traditional exports were opened.

The system of incentives to traditional exports has undergone many alterations and amendments.

During the period under consideration, some of these were: Decree Law No. 1127/63, which fixed the drawback at a standard 12 per cent of fob value; Decree No. 4855/63, which established a specific list of articles to which the drawback applied; Decree Law No. 6671/63, which authorized the Executive to set up a new system and fixed the maximum drawback at 18 per cent of the fob value; and Decree No. 46/65, which laid down drawbacks varying in accordance with the degree of processing and proportion of domestic inputs contained in the products, with especially favourable treatment for mining products.

Buy Argentine

Under Decree No. 534/63, it was provided that the public administration, government agencies, enterprises holding public service concessions and State-owned enterprises should give preference in their purchases to domestic industry. These bodies had the obligation to purchase products of domestic origin wherever the price was reasonable. The term "domestic product" was defined and the criteria for establishing the reasonableness of the price quoted, taking into account various cases and situations, were set forth.[7]

1965-1969

In many ways, this period was one of continuation of the policies introduced from 1958 onwards, since many measures consisted of extensions of or amendments to schemes which were already in force, while Decrees Nos. 3113/64 and 5339/63 remained in force.

However, it began to be evident that a fresh impulse needed to be given to industrial integration, which had started to lose the strength of the first years of the preceding period, through support for basic industry, whose products continued to exert a strong negative influence on the trade balance, and for some capital goods. We shall refer to the latter below, and discuss the most salient promotion measures relating to basic industry taken in the period under consideration.

(a) Capital goods

Internal combustion engines

The scheme which had entered into force in 1960 was supplemented between that time and 1965 by four decrees. In 1965, Decree No. 4808/65 was issued. It provided for continuation of the previous scheme, but on a new basis, in view of the development which the industry concerned had undergone, particularly in the range of higher-powered engines. Steps were then taken to improve the legislative provisions in that connexion, but without introducing substantial amendments to the system governing the import of parts.

7/ The price was considered reasonable when it did not exceed the cif prices of imported goods, plus taxes, levies, surcharges, interests and commissions.

Road-building machinery

Decree No. 2578 of 1968 was designed to promote the manufacture of road-building machinery. It concentrated on several types of machinery which were not as yet being produced, but the promotion of which was justified by the potential demand, in view of the road-building plan being undertaken at that time.[8]

The decree provided for exemptions from payment of sales tax, priority and improved facilities in the financial field and a system for the import of parts on the basis of plans submitted by enterprises. This decree was subsequently followed by Decree No. 595/70, which made the tax incentives broader.

Heavy lorries and long-distance buses

Decree No. 7921/67 authorized two firms to manufacture the machinery in question under the equipment priority system contained in Decree No. 5339/63. It also authorized them to import parts and units free of charges, to an extent ranging from 30 per cent of fob value for the first stages of manufacturing, to 15 per cent for the third stage. It fixed 30 June 1970 as the date for completion of the first stage. The scheme was in its turn supplemented by Decree No. 2992/69.

b) Basic industry

Most of the measures taken to increase the production of intermediate products were directed specifically towards the establishment of industries consisting of only a few large-scale plants, for reasons to do with economies of scale. The sectors covered were newsprint, solvay soda, petrochemicals, iron and steel, and aluminium.

Newsprint

The development of basic industry was the main objective of the authorities, who decided to establish a newsprint plant because newsprint has a very important place in our balance of payments and adequate raw material is available in the country to produce it.

8/ The machines included were front loaders, self-propelled excavators and motor graders.

Law No. 18312 of August 1969 set up the "Fund for the Development of the Newsprint and the Paper Pulp Industry". This fund was to be nourished by the revenues from a levy on imports of newsprint and any other revenues which might be collected for the purpose. Decree No. 4400/69 supplemented the above-mentioned law, providing for tenders to be invited for the pre-investment study for the plant and laying down the procedure to be followed in the invitation of tenders for its construction.

The fund levy was fixed at 10 per cent and it will continue to be collected until the plant is put into operation, under the decree referred to in the previous paragraph.

Only enterprises whose capital is domestic or mixed (domestic and foreign) can seek financial participation by the State, which is not to exceed 33 per cent of the company's authorized capital. In companies with mixed domestic and foreign capital, private domestic capital must hold at least 51 per cent of the votes. What this means in effect is that foreign enterprises cannot receive State support.

Tenders were invited in March 1971, the pre-investment procedure having already been completed. (See below in the section dealing with the present promotion situation)

Solvay soda

With a view to the establishment of a sodium carbonate plant, with a capacity of not less than 200,000 tonnes a year, Law No. 18518 was passed on 31 December 1969 setting up the Sodium Carbonate Development Fund, to be formed from the resources derived from a special levy of 20 per cent on the value of imports of pure and impure neutral sodium carbonate and any other resources or contributions from the State or private parties.

This law was accompanied by Decree No. 8566 of the same date, which fixed the dates for inviting tenders and for opening the bids received. The enterprises awarded contracts were to be entitled to the benefits granted under decree No. 3113/64 and financial participation by the State was permitted in the case of private firms whose capital was domestic or mixed (domestic and foreign) provided that the proportion of votes held in the company was 51 per cent. In such cases, the State could contribute 40 per cent of the company's authorized capital.

The documentation setting forth the specifications for tenders was approved in February 1970 by resolution No. 78 of the Secretariat of State for Industry and Domestic Trade.2/

2/ The competition was declared null and void and the enterprises submitted new and improved proposals, which are at present being considered by the Executive.

Petrochemicals

On the basis of the studies made by the Petrochemicals Commission set up under Decree No. 4636/66, the Executive issued Decree No. 4271/69 for the promotion of this sector.

The essential aims were to reduce the prices of the products, bringing them down to international levels, and to promote the expansion of plants and establishment of new ones.

Four kinds of measures were introduced:

(a) Special development prices for the raw materials used (naphtha, ethane and ethylene in natural or refinery gas). The enterprises supplying these imports were to get compensation for the difference of price from the Secretariat of Financial Affairs;

(b) Reduction in import duties on raw materials; 10/

(c) Tax benefits, similar to those introduced under Decree No. 3113/64;

(d) Equipment priority under Decree No. 5339/63.

It was not possible to carry out this decree fully as far as paragraph (a) was concerned, because of the absence of regulations on the way in which the compensation was to be paid and because of the variation in domestic prices, which made the figures given in the decree no longer appropriate.

The most important projects undertaken in this field and benefiting from the provisions of the decree just discussed are those relating to the construction of a petrochemical plant for the production of aromatic hydrocarbons and cyclo-paraffins under the name of Petroquímica General Mosconi and the establishment of the firm Petroquímica Bahía Blanca.

The establishment of the first of these enterprises was approved by Decree No. 626 in February 1970. A total investment of US$30,457,700 is contemplated, in order to achieve the following output capacities:

10/ The measures referred to in paragraphs (a) and (b) were to be accompanied by a reduction in tariffs on petrochemical products, in order to oblige enterprises to lower their prices.

Benzene	28,000 tonnes
Toluene	5,000 tonnes
Orthoxylene	15,000 tonnes
Paraxylene	33,000 tonnes
Cyclohexane	40,000 tonnes
Aromatics mixture	17,000 tonnes

The Directorate-General of Military Production and the State Petroleum Deposits have shares in the new enterprise.

Among the incentives to which it is entitled are those granted under the Petrochemicals Promotion Decree and equipment priority under Decree No. 5339/63 in the amount of US$8 million.

The establishment of Petroquímica Bahía Blanca was approved by Law No. 19334, which authorizes the formation of a limited liability company with the participation of the Directorate-General of Military Production, State Petroleum Deposits and the State Gas Company.

The project involves an investment of US$44,960,000 for the construction of the Bahía Blanca complex to produce olefines with the following maximum capacities:

Ethylene	200,000 tonnes
Propylene	20,000 tonnes

The new company is granted the following incentives, among others: equipment priority in the amount of US$17,670,000; special development price for gas; exemption from the "Buy National" Law No. 18875; tax privileges; most favoured treatment with regard to promotion and taxation in relation to the treatment that is or may in the future be granted to enterprises in the field of petrochemicals; a provision that all real estate, access ways and road and rail connexions that may be necessary for the operation of the firm's industrial establishments are of public utility and liable to expropriation or servitude.

Iron and steel

In this sector the incentives granted to enterprises under Decrees Nos. 5036/61 and 3113/64 were maintained.

The legislation is very various and includes elements relating both to the sector as a whole and to the individual enterprise, the latter being the more important. Mention should be made in this connexion of Decree No. 5798/67, which extends the tax exemption arrangements for raw materials imported by SOMISA in accordance with the programme for expanding the capacity of this enterprise to 2 million tonnes a year[11/] and of Decree No. 384/68 authorizing a State guarantee for a loan of $114 million.

Still in the field of integrated iron and steel works, the Acindar firm was granted various facilities for the purposes of its expansion plan and the year 1967 saw the establishment of Propulsora Siderúrgica, with the following targets:

First stage	- cold rolling	350,000 tonnes
Second stage	- hot rolling	1,000,000 tonnes
Third stage	- steel-making and blast furnaces	To be decided.

Among the privileges granted were duty-free imports of semi-finished goods and approval of an agreement for the supply of raw materials by SOMISA.

Another important measure was introduced through Decree No. 5925/67, which provided for various exemptions to promote the development of the Sierra Grande iron deposit by a mining enterprise. These privileges are very extensive and exempt the future plant from the payment of tax and of duty on imports of machinery and equipment. The exemptions relate to the following:

(a) Duties on imports of machinery, accessories and spare parts and of materials and other items necessary for the exploration, surveying and working of the deposit, including the treatment and/or dressing of the ore;

(b) Duties on imports of personal and household effects and other items brought in by the staff needed to execute the plans of any firm awarded the contract who travel to the country for that purpose, on condition that the person concerned stays in the country for at least a year;

(c) Corporate income tax and the tax in place of the charge for the free transfer of property;

(d) Withholdings from payments of fees or remuneration for advisory services of any kind from abroad;

11/ Under Decree No. 8052/68 it is planned to raise the capacity to 2.5 million tonnes by 1972.

(e) Sales tax;

(f) Technical education tax;

(g) Stamp tax on articles of association and extensions thereof, including increa in the capital and issues of shares, provided that their purpose is to facilitate working of the deposit;

(h) Any other duties, charges, taxes or surcharges that may be introduced and that would affect any aspect of the operations, proceedings or activities in which the contractor might engage in order to fulfil the obligations he undertakes.

These exemptions were to apply from the date of the approval by law of the award o the contract until ten years from the date fixed for the start of operations in working the deposit.

There was also exemption from the main taxes and from the payment of corporate income tax for investors in the company to be established.[12]

Decree No. 4045/69 approved the plan for working the deposit, which is for an annual output of 2 million tonnes of crude metal, which means mining 3.5 million tonnes of ore a year, with an investment of US$92,615,000.

Aluminium

In 1965 the aluminium production programme was given impetus by the approval in Decree No. 3729 of the operating schedule drawn up by COPEDESMEL (Permanent Commission for Light Metal Development Planning) which provides for the establishment of an aluminium plant in the province of Chubut.

By Decree No. 267/70 tenders were invited for the construction, starting up and operation of an aluminium plant by a private firm, but the competition was declared null and void (Decree No. 206/71) because none of the three tenders submitted met the

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12/ Law No. 18605 adopted in 1970 approved the agreements reached by the Director General of Military Production and the province of Rio Negro for the establishment of a limited liability company under the name of "Hierro Patagónico de Sierra Grande Sociedad Anónima Minera", which is granted all the privileges available under Decree No. 5925/67 for a period of ten years.

ecifications. The same decree also authorized COPEDESMEL to enter into a contract rectly with the firm of ALUAR SAIC, after modification of the firm's tender and subject approval by the Executive. Finally the Executive's Decree No. 3411/71 approved the ntract concluded between COPEDESMEL and the firm in question.

The contract is for the construction of a plant with a capacity of 140,000 tonnes year at a cost of about 50 million dollars, in the neighbourhood of Puerto Madrya on Golfo Nuevo coast, to start production not later than 1 February 1975.

Among the development incentives to which the firm is entitled are the following:

- Customs exemptions under Decree No. 5339/63 and exemption from duty on imports of equipment, machinery, spare parts, materials and other parts and on the raw materials and other inputs necessary for the manufacture in Argentina of parts, machinery, equipment and spare parts for use by ALUAR and its contractors and subcontractors. These exemptions amount to a sum of nearly $100 million cif;
- Exemption from any charges on imports of raw and other materials and inputs for use in the production of aluminium;
- Guarantees with regard to the supply of electricity, water and gas by State enterprises.
- Tax exemptions similar to those granted under article 7 of Decree No. 3113/64;
- State guarantees with regard to the supply of currency for foreign payments to be made by the enterprise;
- Authorization for a barter system under which the alumina used as raw material is to be imported from Australia and half of these imports are to be paid for out of the metal produced.

This project is to be carried out in parallel with the construction of the aleufú hydroelectric power station on the river of the same name in the province of but. Work on that project will be carried out in such a way that it keeps pace with rk on the aluminium plant for which the power produced will be intended.

) Other promotion measures

In addition to the measures described above, in the field of basic industry steps e taken to promote imports of equipment by selected sectors and the non-traditional orts scheme was expanded.

Equipment

In April 1968 Decree No. 1756 was adopted, with the aim of increasing the range of sectors which could benefit from the right to import equipment on preferential terms. It was considered that apart from the sectors already promoted under Decrees Nos. 5339/ and 3113/64, there were other sectors of importance for the economy which needed to reduce their costs and adjust to more advanced technology.[13]

Projects for the construction, expansion, modernization or re-equipment of plants would therefore pay a single duty of 20 per cent on imports of equipment, whether or not the same goods were produced locally. In addition, the Central Bank of the Argenti Republic, in circular R.C. No. 328, reformed the system for financing imports of equipm introduced by circular R.C. No. 196, making the conditions more general and liberal.

Subsequently, under Decree No. 662/69, other sectors were added to those entitled to benefit under Decree No. 1756, and its provisions were extended to spare parts and components needed to keep the imported equipment in operation.[14]

These provisions related solely to imports of goods not produced in the country or not produced up to the standards required for the project. Despite this last reservati the strong competition thus created for domestic producers of equipment and machinery led to growing pressure by them for the abolition of all kinds of special import arrang ments for the benefit of certain sectors. Although some domestic producers of capital goods were on the list of those who benefited (machine tools, heavy equipment, boiler making, etc.) the loss they suffered on the demand side was greater than the gain on the import side.

13/ The new sectors covered were: (a) Textiles produced from domestic raw materials; (b) Food, excluding beverages, sugar, confectionery and tobacco; (c) Chemi excluding scents, toiletries and cosmetics; (d) Building materials; (e) Machine tools (f) Manufacture of heavy equipment and parts; (g) Corrosion-resistant boilermaking; (h) Leather and leather goods, (i) Industrial ceramics; (j) Electronics.

14/ The additional sectors included were: (k) Timber; (l) Plastics; (m) Rubber (n) Packaging; (o) Brewing; (p) Electrical machinery, appliances and components; (q) Paper, not including pulp.

Non-traditional exports

As a result of the heavy devaluation of the peso which took place on 13 March 1967, and in order to offset the boost it gave to the earnings of export sectors, Law No. 17198 introduced export duties on traditional products. As regards non-traditional exports, the same law repealed the lists annexed to Decree No. 46/65 and the amendments thereto and introduced new lists of non-traditional exports with a uniform refund of 12 per cent, thus returning to a system similar to the one that prevailed before Decree No. 46/65.

Those refunds were in addition to any drawback payments on the goods and were kept in being until the adoption of Law No. 19184 in 1971.

Regional promotion

Regional promotion continued during this period on the basis of Decree No. 3113/64. The most important measure from the regional standpoint was the adoption of Decree No. 2102/69, based on Law No. 17010/66, which established the Tucumán Operations Committee, and Law No. 18202, which authorizes the Executive to grant privileges to enterprises establishing themselves in Tucumán Province.

The aim of the decree was to promote the development of the province's agriculture and industry in order to make it less dependent on sugar production alone and to offset the unemployment caused by the closure of eleven refineries employing about 11,000 persons.

The promotion scheme covered industrial and agricultural enterprises.

Within the province, areas in the neighbourhood or within the sphere of influence of the sugar refineries that had been closed or nationalized were declared maximum promotion areas, the aim being, of course, to employ the labour that had thus become available in the Republic's most densely populated province.

The tax privileges granted covered corporate income tax, the tax in place of the charge for the free transfer of property, sales tax, stamp tax, and partial exemption from income tax for investors in Tucumán industry. Another important feature of the decree was that it allowed capital goods intended for the province to be imported free of surcharge, provided that they were not produced in the country or if produced were not of the kind needed for the project.

The incentives thus offered led to numerous applications by enterprises, which had until 31 December 1969 to take advantage of the offer. By May 1972, 108 enterprises employing a total of 11,746 persons had established themselves in the province.

PROMOTION MEASURES FROM 1970 ONWARDS

At the beginning of 1970 a number of important legal provisions were introduced, including the Industrial Promotion Law and various instruments relating to the acquisition of equipment, which are discussed below.

Law No. 18587, adopted in 1970, is the new legal basis for industrial promotion, replacing Laws Nos. 14780 and 14781, which had been in force until then.

The law deals with matters relating to internal promotion and the rules with which foreign investment must comply. It is aimed essentially at improving on previous legislation and adapting it to the new promotion philosophy, formulating each of the aims set in a more specific way.

In point of fact, the general objectives of Law No. 14781 are kept, but with the addition of certain elements.

1. Industrial promotion

Solving balance-of-payment problems continues to be an essential objective, although it is added that to achieve this objective efforts will be made to promote the establishment of basic industry and to increase the efficiency of existing industry so that it can expand its exports.

As far as regional promotion is concerned, a new element is the idea of promotion by means of development zones and economic regions.

Similarly, unlike Law No. 14781, the new one expressly refers to two factors which had been of concern to the authorities for some time, namely, the promotion and/or protection of industry financed by domestic capital and support for the development of domestic technology.

As regards the provisions and benefits relating to taxation, credit and State purchases, the laws are similar, although the new one provides for the establishment and promotion of industrial sectors in the development zones, based on the principles of the economics of location, for the promotion of Argentine goods abroad by the State and for the execution and promotion of industrial research and development.

2. Foreign investment

In this area there have been fewer innovations in relation to Law No. 14780.

The basic principles have thus been adhered to:

(a) Rights equal to those granted to Argentine citizens under the constitution and other legislation;

(b) Preferential treatment for the establishment of enterprises in partnership with firms financed by domestic capital;

(c) Transfer of profits to the country of origin at the free market rate of exchange, the sole restrictions on the repatriation of capital being those expressly stipulated at the time the investment was approved.

To sum up, the attitude toward foreign investment is an open and welcoming one, the aim being simply to combine in a single legal instrument what had previously been covered by two separate laws.

No specific regulations, however, were adopted for the application of this law.

Decree No. 603/70 was intended to preserve the continuity of the existing promotion arrangements until regulations for the application of Law No. 18587 were adopted. To this end Decrees Nos. 4271/69 and 6703/69 were approved as the regulations governing the application of the law, Decree No. 3113/64 was kept in force on a transitional basis and Decree No. 5339/63 was kept in force only in so far as it was an essential corollary to Decrees Nos. 3113/64, 4271/69 and 6703/69.

Thus it can be said that the new promotion law did not introduce any substantial changes in the existing promotion system.

Equipment

At the same time as the new promotion law was adopted, Law No. 18588 and Decree No. 604/70 regulating its application were passed, under which the special arrangements for imports of equipment were abolished, particularly those introduced under Decree No. 1756/68, which, as has been said, were steadily resisted by domestic producers. Under this law, the Executive was to revise the import tariff nomenclature (NADI) in such a way that capital goods produced in the country were duly identified, so that they could be given the appropriate customs protection.

Decree No. 604/70 regulating the application of the law abolished the existing special arrangements and introduced in its annexes new formulations for items 84, 85 and 90 of the NADI. With a few exceptions the duty for goods not produced was fixed at 20 per cent and the maximum for goods that were produced was raised to 140 per cent although the duty on most goods was between 50 and 80 per cent.

The protection afforded was considered sufficient by capital goods manufacturers, although in the middle of 1970 the tariffs were appreciably reduced, particularly those for goods not produced. On 6 July 1970, as a result of the devaluation of the Argentine peso, the tariffs were reduced in order to reduce the impact of the devaluati on industrial costs. Thus, for example, the duty on goods paying 20 per cent was reduced to 5 per cent, 140 per cent to 110 per cent, 80 per cent to 60 per cent, and 50 per cent to 35 per cent (Decree No. 191/70).

Subsequently, in November of the same year, the tariffs were raised again, althou for many items they still did not regain the levels fixed in Decree No. 604/70. Categories of goods paying up to 25 per cent underwent no change while the remainder were increased by between 15 and 30 percentage points.

The minimum thus continued to be 5 per cent and the maximum 140 per cent. In October 1971, substantial changes were made in the provisions governing imports of capital goods by a series of measures. Decree No. 4485/71 introduced a system of pric licences for imports of capital goods.

For this purpose the section of the import tariff nomenclature headed "Others" was divided into two parts, one for unlicensed imports which pay a duty of 90 per cent and the other for licensed imports which pay a duty of 5 per cent.

For a prior import licence to be granted, it is necessary that the application should be made by the direct users of the goods and that the goods cannot be produced in the country.

Resolution No. 500/71 of the Ministry of Industry and Mining governs the issue of licences and makes the Capital Goods Advisory Board set up by Resolution SEICI No. 209 responsible for deciding whether the product for which an import licence is sought could be supplied by domestic industry.

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This arrangement, in the last analysis, takes the decision as to whether the products ported are produced in the country out of the hands of the customs and gives it to Ministry of Industry and Mining acting through specialized bodies.

Buy National

In December 1970, Law No. 18875 was adopted with the essential aim of channelling rchases by State bodies and enterprises to domestic industry. In actual fact the w covers other sectors apart from industry (public works and consultancy services), t for the purposes of this paper we shall confine ourselves to its effect on industry.

The preamble to this law is instructive because it gives a very good account of the in difficulties encountered by domestic industry, and particularly the machinery and uipment industry, in exploiting the demand of the public sector. It is argued that State can hardly compel private firms to obtain their supplies at home when many te bodies do everything they can to make their purchases abroad. This tendency was be found mainly among State enterprises and de-centralized bodies. There were various asons and circumstances which made it necessary to adopt this law, the main ones being following:

(a) Before tenders are invited, technical processes are chosen, out of all the possible alternatives, such as can only be implemented with imported equipment, with the result that the domestic industry is out of the running from the start, despite the fact that it would be able to provide equipment for alternative technical processes yielding similar results;

(b) The financial difficulties of domestic industry lead it to contract foreign loans, which are normally tied to the purchase of foreign technology and equipment and even the services of foreign consultants.

It should be noted that the channelling of State purchases to local enterprises is ne irrespective of their nationality, local enterprises being understood to mean those hich have their domicile and head offices in the country and are governed by Argentine law.

The "Buy National" Law includes a series of provisions aimed at eliminating these ults, but it has to be said that the main difficulties arise precisely in connexion ith the proper application of these provisions.

As compared with the "Buy Argentine" Law, the new one includes the following additions:

(a) It includes a definition of "domestic enterprise";

(b) It includes firms of consultants among those who can benefit from its provisions;

(c) It requires prior consultation before the purchase of goods;

(d) It aims at adapting the technology chosen to the capacity of domestic industry

Re-organization of the Motor Industry

In July 1971 Law No. 19135 on re-organization of the motor industry was adopted.

This law, which followed on a number of preliminary drafts of various kinds, is a continuation of previous arrangements by which the sector had been governed until then.

The law was called a "re-organization" law because after more than 10 years of the existing arrangements the aim was not to expand the industry by establishing new assembly plants, but on the contrary to improve what had already been established, by increasing productivity, reducing costs and prices and improving the quality and technological standard of the products.

The law also covered an industrial sector of great importance, the producers of motor vehicle parts, most of them small and medium-sized enterprises financed by domestic capital, which until then had been more or less neglected in motor industry pol

One of the aims of this policy was precisely to strengthen domestic capital and to achieve a higher degree of integration among assembly plants.

Concentration of existing firms was encouraged so that the minimum necessary scale of production could be achieved and special emphasis was placed on research and development of new models.

Another objective was to promote exports because it was considered that from the standpoint of quality the industry had achieved an acceptable enough level to start trying to capture markets within this difficult sector. With this in mind a 50 per cent refund was introduced for exports of domestically developed and designed vehicles.

Firms financed by domestic capital benefit from special credit lines and preferential treatment for short-term loans, although in general the main benefits of this scheme continue to be the permits issued for imports of parts up to a certain percentage of the value of the vehicle, which may be between 4 and 10 per cent.

Another important aspect is the fact that the domestic market is reserved for existing firms, because imports of motor vehicles are prohibited and the establishment of new motor vehicle manufacturers is suspended until 31 December 1980.

This last provision, however, does not apply to producers of motor vehicle parts, who can establish themselves with the prior authorization of the Ministries of Industry, Commerce and Mining. Among the measures of major importance for this sector is the fact that assembly plants are required to import, within the fixed percentages, only those parts that are not made in the country, on the basis of lists of permitted parts.

Other measures include regulations concerning the production of new models and a special licensing contract register for the sector.

Foreign investment

The entry of capital into Argentina was originally regulated, as has been said, by Law No. 14780, and subsequently by Law No. 18587, in article 6. There was no great difference between the two, which lay down broad and liberal provisions governing such investment. In mid-1971, with the adoption of Law No. 19151, article 6 was repealed and a new system was introduced which this time did imply substantial changes in the philosophy that had prevailed until then. This law and the decree regulating its application (No. 2400/72) laid down more precise rules to be observed by foreign investment and set forth a series of conditions and requirements.

Above all, it reaffirms that such investment shall enjoy equal treatment with that afforded domestic enterprises under Argentine law, provided that the investment complies with the provisions of the new legislation. The preference for investment undertaken in partnership with domestic capital is likewise stressed. Such investment can take the form of transfers of currency, imports of capital goods and spare parts, capitalization of convertible currency loans, re-investment of profits of foreign firms that could be transferred abroad and other non-material assets.

The need to obtain foreign capital arises because of national objectives with regard to development and the transfer of technology, it supplements domestic savings as a source of resources. Particular emphasis is therefore placed, in the selection of projects, on the ways in which they may benefit the national economy, particularly by import substitution and expansion of exports, on the use of the country's own natural and human resources and on technological development.

Projects for the production of items directly related to military activities have also to be evaluated by the Ministry of Defence and to get its approval. Those which contain contractual limitations on the export of the products in question are automatical rejected.

It is stipulated that investors can repatriate the capital invested and can transfe it only to Argentine citizens or if the enterprise is liquidated.

As far as credit is concerned, restrictive conditions are laid down, in that the firms are granted access solely to short-term or contingency loans up to a maximum amount of 50 per cent of the registered capital. Rules are also laid down with regard to the recruitment of staff, in that at least 85 per cent of the staff at the managerial, technical and professional levels have to be Argentines.

All these rules imply, by comparison with previous arrangements, greater supervisio and intervention by the State with regard to the flow of foreign capital to the differen sectors and its operations within the country. It was in order to carry out these functions that the Foreign Investment Registry was set up, which operates under the Secretariat of Planning and Government Promotion; all foreign investment has to be registered with it, whether undertaken under this law or under previous ones.

It should be made clear, however, that this is done solely for control purposes, because firms which have made investments with foreign capital under previous arrangements continue to be governed by the rules under which such investments were undertaken, except as regards registration with the Registry and the provisions on credit.

Transfer of technology

Law No. 19231 is designed to regulate the acquisition of foreign licences by Argentine enterprises.

The need for such a law arose as a result of the growing importance for development of obtaining patents which will lead to genuine technological progress. Practical experience has shown that the expense is not always justified, either because the same or similar technology has already been developed in the country, or because the technology in question is not suited to the requirements of the domestic market or because the expense involved is too great in relation to the progress it brings about.

To make matters worse, there are known to be many agreements which include restrictions on exports, production, prices and other aspects of the company's activities.

The adoption of the present law and the decree regulating its application is designed to strengthen the negotiating position of the local firm and give it financial support in obtaining technology which will mean real progress for the country; to avoid the purchase of technology which is unnecessary from the standpoint of the economy as a whole; and to support and protect domestic technological research.

To this end the National Register of Licensing Contracts and Transfers of Technology was established, with which all agreements involving transfers of trademarks, patents, designs, industrial models and other similar items have to be registered.

The authority responsible can refuse registration if the conditions laid down in the law are not met.

If the agreements are not registered, they lose all legal value and the corresponding payments or transfers abroad are not authorized.

Promotion of Tucumán Province

On 3 May 1972 new impetus was given to the promotion of the Province by means of a simultaneous and co-ordinated series of measures. At that time 55 plants were in operation, 13 were under construction and 21 projects had been approved under the previous arrangements. Despite this, it was considered necessary to extend the duration of promotion measures on behalf of Tucumán. Laws Nos. 19614 and 19613 were adopted for this purpose, together with Decree No. 2558/71. The first law can be called a general promotion law, introducing a series of incentives for firms establishing themselves in the Province or existing firms which wish to expand. The incentives include:

(a) Tax exemption or reduction for specified periods;

(b) Reduction of or exemption from import duty and all other duties, special taxes or charges, with the exception of levies, for imports of machinery, equipment, parts and components and spare parts which domestic industry is not in a position to supply;

(c) Preferential treatment with regard to loans and other measures to facilitate the financing of development plans;

(d) Preferential treatment with regard to the supply of electricity, fuel and transport;

(e) Preferential treatment by State bodies.

Decree No. 2558/72, which regulates the application of this law, specifies precisel what kind of enterprise can benefit from its provisions and exactly what incentives are available.

Law No. 19615 authorizes the establishment in Tucamán Province of one or more motor industry plants, which are entitled to the privileges granted under Law No. 19614 and the Decree regulating its application. Enterprises interested in obtaining authori tion to establish such plants are required to make application within 30 working days of the publication of the law in the official gazette.

The firms which submitted projects proposed to manufacture lorries, long-distance buses and spare parts for motor vehicles, which, according to the preamble to the law, are the only ones permitted under Law No. 19135 on re-organization of the motor industr

Measures for the promotion of non-traditional exports

1. Law No. 19184 concerning refunds on non-traditional exports fixes the maximum amount of the refunds as follows:

(a) Ten per cent of the value of the goods exported, without prejudice to any drawback payments to which the goods may be entitled;

(b) Up to 40 per cent of the value of the goods exported, including in this sum any drawback payment to which the goods may be entitled.

Decree No. 2864/72, which regulates the application of Law No. 19184, fixes the maximum refund with regard to paragraph (a) at 10 per cent.

With regard to paragraph (b), it fixes the refund at 5 per cent, 15 per cent, 22 per cent or 30 per cent, depending on the type of product.

2. Circular B 689 of the Central Bank of the Argentine Republic lays down the conditions on which commercial banks are to finance non-traditional exports.

The items covered include goods, technical services, research, freight services, insurance and repairs and modifications to transport.

Between 80 and 90 per cent of the value FOB can be financed, with repayment periods of up to 8 years in the case of capital goods and a year and a half in the case of industrial consumer goods.

The circular also lays down the procedures and conditions to be complied with by banks and enterprises.

SUMMARY OF PROMOTION MEASURES IN FORCE AT THE PRESENT TIME

Two sets of promotion measures can be said to be in force at present, those which can be extended to newcomers and those which are limited to the enterprises already taking advantage of them.

We shall list measures of the first kind only, because of the interest they may have for potential investors:

(a) Decree No. 5339/63 on imports of equipment in so far as it has to do with the incentives provided under Decree No. 3113/64;

(b) Decrees Nos. 4271/69 and 6703/69 on petrochemicals promotion;

(c) Decree No. 4485/71 and resolution No. 500/71 on imports of capital goods;

(d) Law No. 18587 and Decrees Nos. 3113/64 and 2595/70 on regional and sectoral promotion;

(e) Law No. 18875, Decree No. 2930/70 and resolution No. 562/71 entitled "Buy National";

(f) Law No. 19135 and the resolutions regulating its application in so far as they relate to producers of motor vehicle parts;

(g) Law No. 19151 and Decree No. 2400/72 on foreign investment;

(h) Law No. 19231 and Decree No. 6187/71 on transfer of technology;

(i) Law No. 19614 and Decree No. 2558/72 on the promotion of Tucumán Province;

(j) Resolution No. 119/72 of the Ministry of Industry and Mining on a national and international public competition for the construction of one or more newprint plants, to run from 26 May 1972 for a period of 180 days. The opening of the bids is scheduled for 23 November 1972.[15/]
In this competition the same specifications will be used as those approved by Decree No. 43/71;

(k) Law No. 19184 on the promotion of non-traditional exports and Decree No. 2864/ Circular No. 689 of the Central Bank of the Argentine Republic.

Investment financing

The National Development Bank has various credit lines of interest to investors, which cover the financing of fixed assets; special loans for the establishment or expansion of industrial and mining establishments, in accordance with the second progra agreed with the Inter-American Development Bank (including loans for imports and for local investment); operations intended to finance imports of capital goods within the credit lines opened by European banking groups; arrangements for the purchase of debentures with funds from the special accounts system; loans for small and medium-sized enterprises located in the interior of the country; loans for artisans and craft men; loans for financing prototypes of capital goods; loans for promoting the productivity of industrial enterprises; loans for technical, professional and industri personnel who have graduated in the country; loans for the establishment of pilot plants; loans for the purchase of domestically produced aircraft; loans for minor

15/ Decree No. 1309 declared null and void the competition held under Decree No.4 on the basis of Decree No. 4400/69, although it authorizes the construction of a plant provided that the enterprise in question (which had taken part in the competition) undertakes newsprint production trials in order to test the technology and the propert of pulp used. The economic and financial aspects also have to be looked into. Because the plant in question will produce 105,600 tonnes a year (whereas the competition calle for a minimum overall capacity of 220,000 tonnes), new tenders will be invited to cover the remainder.

repairs to ships and boats of the national merchant marine; loans for private repair shops and aircraft maintenance establishments; loans to enterprises engaging in the construction of public works; credit facilities for financing the production of non-traditional exports; credit facilities for financing promoted exports with deferred payment; special loans to help with the production of non-traditional or promoted exports; loans for blind persons, persons with defective vision and disabled persons who have been rehabilitated; loans to finance the cost of participating in international fairs and exhibitions for Argentine industry; loans for imports of capital goods within the programme agreed with the Eximbank; mining development loans; mining development loans to prospecting enterprises.

Table 1

Comparison between Total Gross Product and Manufacturing Output

(Five-Year Averages)

Period	Gross Domestic Product (in millions of 1960 pesos) Total (1)	Manufacturing (2)	(1) Index 1900/04 = 100	(2) Index 1900/04 = 100	(2)/(1)
1900/04	119,205	21,929	100	100	18
1905/09	176,094	33,783	148	154	19
1910/14	220,490	45,861	185	209	21
1915/19	212,015	43,292	178	197	20
1920/24	282,491	61,963	237	283	22
1925/29	367,732	86,968	308	397	24
1930/34	375,267	92,021	315	420	25
1935/39	445,722	120,419	374	549	27
1940/44	511,058	148,884	429	679	29
1945/49	620,963	188,093	521	858	30
1950/54	670,224	194,785	562	888	29
1955/59	802,697	253,015	673	1,154	32
1960/64	922,332	301,083	774	1,373	33
1965/69	1,211,300	414,260	1,016	1,839	34
1970	1,391,000	495,160	1,167	2,258	36

Source: ECLA and Central Bank of the Argentine Republic

INDUSTRIAL PROMOTION AND THE CAPITAL GOODS SECTOR

1958-1972

The industrialization process in Argentina has followed a course similar to that in other countries which have been late to industrialize. It began with non-durable consumer goods, above all foodstuffs and clothing, and was based on small-scale labour-intensive industry. As the domestic market expanded, it became possible to manufacture durable consumer goods and intermediate goods in certain basic industries which require a larger scale of production.

Some capital goods were already being produced at the beginning of the century, but only on a handicraft scale here and there. After the Second World War, production on an industrial scale was achieved, and in recent years it has increased considerably.

Within this context, local manufacturing industry has undergone a substantial growth in this century, as is shown by the proportion of the gross domestic product it accounts for, which increased from 18.4 per cent to 34.2 per cent between the periods 1900-1904 and 1965-1969. In 1970, it reached a maximum value of 36 per cent.[1/] It should also be pointed out that this increase in the percentage took place in relation to a gross domestic product which increased more than twelve-fold from the beginning to the end of the period considered.

This expansion of industrial activity was achieved through permanent import-substitution, which was in most cases made possible by the existence of a large market, in particular for consumer goods.[2/] There were also various factors which strongly encouraged this substitution. Some of the main ones were:

(a) Balance of payments difficulties;

(b) Wars;

(c) Development policies.

1/ This percentage, although genuinely high, is influenced by the high ratio of industrial to agricultural prices. If it were possible to make an assessment on the basis of international prices, the percentage would be substantially reduced.

2/ In contrast to this situation, many developed countries industrialised primarily on the basis of exports to external markets.

Table 2

Proportion of Gross Domestic Product Accounted for by Foreign Trade (Five-Year Averages)

(in millions of 1960 pesos)

Period	Gross Domestic Product Average	Exports	per cent	Imports	per cent
1900/04	119,205	32,305	27.1	31,113	26.1
1905/09	176,094	44,728	25.4	50,363	28.6
1910/14	220,490	49,619	22.5	63,281	28.7
1915/19	212,015	50,884	24.0	37,103	17.5
1920/24	282,491	70,905	25.1	59,888	21.2
1925/29	367,732	87,520	23.8	91,198	24.8
1930/34	375,267	82,183	21.9	55,164	14.7
1935/39	445,722	85,133	19.1	65,967	14.8
1940/44	511,038	66,435	13.0	32,706	6.4
1945/49	620,963	63,959	10.3	60,854	9.8
1950/54	670,224	49,597	7.4	48,926	7.3
1955/59	802,697	52,978	6.6	65,413	7.9
1960/64	922,332	65,486	7.1	65,486	7.1
1965/69	1,211,300	81,157	6.7	66,621	5.5
1970	1,391,000	95,979	6.9	90,415	6.5

Source: ECLA
INDEC
Central Bank of the Argentine Republic

Table 3

Percentage Composition of Imports

Period	Consumer Goods	Intermediate Goods	Capital Goods	Total Imports
1905/09	37.9	47.2	14.9	100
1909/10	35.3	44.2	20.5	100
1910/14	36.1	44.7	19.2	100
1915/19	48.8	38.1	13.1	100
1920/24	41.0	41.9	17.1	100
1925/29	37.0	41.2	21.8	100
1930/34	39.2	46.8	14.0	100
1935/39	33.7	47.3	19.0	100
1940/44	30.5	59.6	9.9	100
1945/49	23.9	51.8	24.3	100
1950/54	12.7	66.3	21.0	100
1955/59	5.2	69.6	25.2	100
1960/64	2.6	63.9	33.5	100
1965/69	4.2	76.9	18.9	100
1970	4.8	73.6	21.6	100

Source: DMEI

INDEC

Table 4

Trends in Imports

Period	Total	Consumer Goods	Intermediate Goods	Capital Goods	Total	Consumer Goods	Intermediate Goods	Capital Goods
1900/04	31,113	11,792	14,716	4,636	100	100	100	100
1905/09	50,363	17,778	22,260	10,324	162	151	151	223
1910/14	63,281	22,844	28,287	12,150	203	194	192	262
1915/19	37,103	18,106	14,136	4,860	119	154	96	105
1920/24	59,888	24,554	25,093	10,241	192	208	171	221
1925/29	91,198	33,743	37,574	19,881	293	286	255	429
1930/34	55,164	21,569	25,817	7,723	177	183	175	167
1935/39	65,967	22,231	31,202	12,534	212	189	212	270
1940/44	32,706	9,975	19,493	3,238	105	85	132	70
1945/49	60,854	14,544	31,522	14,788	196	123	214	319
1950/54	48,926	6,214	32,438	10,274	157	53	220	222
1955/59	63,413	3,297	44,135	15,980	204	28	300	345
1960/64	65,456	1,703	41,846	21,938	210	14	284	473
1965/69	66,621	2,798	51,232	12,591	214	24	348	272
1970	90,415	4,340	66,545	19,530	291	37	452	421

Source: Based on ECLA data

Table 5

Physical Volume of National Output of Certain Intermediate Materials

(Base year 1960 = 100)

Period	Paper and Board	Chemicals	Petroleum By-Products	Metals excluding Machinery
1900/04	7.5	6.5	-	1.6
1905/09	12.9	10.8	-	3.2
1910/14	19.2	15.3	-	5.8
1915/19	22.6	18.2	-	4.1
1920/24	40.2	21.7	1.1	7.8
1925/29	45.7	30.6	8.3	19.0
1930/34	61.8	33.8	19.8	14.1
1935/39	38.3	27.6	30.6	32.9
1940/44	57.2	48.8	33.9	30.4
1945/49	65.4	53.0	40.8	43.7
1950/54	76.6	61.3	63.6	57.2
1955/59	124.6	83.1	86.8	93.5
1960/64	119.7	100.2	118.1	111.3
1965/69	176.5	187.0	164.6	175.4
1970				

Source: Central Bank of the Argentine Republic

Table 6

Apparent Demand for Selected Equipment

(Base year 1960 = 100)

	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969
1. Prime movers	33.3	100.0	93.7	84.2	60.1	122.9	118.9	129.8	194.4	217.7	276.3
2. Electrical machinery and appliances	78.7	100.0	110.7	92.8	75.0	77.7	90.0	89.2	108.2	120.7	143.6
3. Pumps, compressors, boilers, etc.	58.0	100.0	122.4	79.4	101.2	126.0	99.0	123.4	143.0	146.0	186.0
4. Measuring and control instruments	84.7	100.0	119.1	128.8	112.2	140.8	150.6	167.7	175.8	232.0	214.5
5. Data processing equipment	15.2	100.0	171.2	169.5	121.7	113.8	259.7	291.1	380.9	398.1	550.9
6. Road making moving and lifting equipment	64.2	100.0	149.0	121.0	60.2	38.5	50.4	55.9	89.8	116.6	156.6
7. Agricultural machinery	95.9	100.0	109.2	92.5	98.5	113.6	120.6	96.1	94.0	93.4	88.0
8. Rail transport equipment	162.1	100.0	168.7	378.0	361.5	185.6	200.1	222.6	121.6	233.2	151.6
9. Sea transport equipment	119.2	100.0	244.9	200.3	231.0	129.6	198.5	168.2	253.8	265.5	252.2
10. Growth industry equipment	72.6	100.0	182.5	184.8	120.7	212.1	179.9	202.5	111.0	143.0	146.8
11. Low-growth industry equipment	69.1	100.0	200.6	218.2	115.6	94.6	77.5	79.6	105.3	137.5	176.4
12. Equipment n.E.S.	22.8	100.0	147.6	137.6	85.5	59.0	50.6	66.4	151.9	193.7	232.0
13. Tractors	74.3	100.0	78.7	63.9	61.0	73.7	74.1	63.4	52.2	53.7	54.9

Table 7

Trends in the Physical Volume of Output by Major Groups of Equipment

(Base year 1960 = 100.0)

	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969
Prime movers	82.0	61.3	100.0	146.0	191.1	244.6	477.6	469.6	675.3	572.5	544.6	750.7
Industrial electrical machinery and appliances	62.8	81.1	100.0	111.5	108.4	77.1	92.3	106.9	99.7	94.1	110.5	124.8
Measuring and control instruments	84.0	85.3	100.0	121.0	135.8	99.6	180.8	193.1	204.3	226.3	213.2	255.9
Pump, compressors, boilers, tanks	96.9	98.5	100.0	110.3	118.3	108.2	137.6	149.7	159.3	167.6	237.9	187.7
Data processing equipment (base year 1961 = 100.0)	-	-	-	100.0	170.7	275.4	431.1	1,025.5	1,025.5	1,168.8	1,311.3	1,619.5
Road making, moving and lifting equipment	90.9	95.5	100.0	135.2	102.9	80.5	55.5	89.4	89.3	84.8	80.3	108.3
Agricultural machinery	103.3	101.7	100.0	108.6	94.0	103.4	119.0	127.4	100.6	98.3	97.1	[illegible]
Tractors	53.4	76.7	100.0	75.7	63.1	61.4	70.4	72.9	60.5	47.2	48.6	[illegible]
Rail transport equipment	90.3	88.3	100.0	99.8	81.1	81.7	74.1	85.8	84.8	87.7	84.5	95.5
Sea transport equipment	92.3	91.6	100.0	108.2	111.4	114.0	119.0	123.3	123.7	131.2	139.5	144.1
Growth industry equipment	89.2	94.6	100.0	140.0	129.1	162.1	182.2	259.4	234.9	291.7	348.2	416.1
Low-growth industry equipment	108.8	104.4	100.0	120.0	106.0	96.1	104.6	108.7	111.5	138.2	164.9	197.1

Table 8

National Output of Machinery and Equipment as Share of Apparent Demand 1959-1969

Equipment	Percentage
Processing equipment	34.4
Pumps, boilers	40.4
Road-making equipment	42.3
Rail transport	42.8
Low-growth industry equipment	44.9
Growth industry equipment	48.3
Sea transport	49.0
Prime movers	58.0
Electrical machinery and appliances	76.6
Measuring instruments	78.6
Tractors	92.2
Agricultural machinery	96.9

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Not all of these were of equal importance, but various ones prevailed at various times. While the first of the factors listed was a constant phenomenon, the second was more of an occasional influence, affecting the process decisively only for short periods of time. In addition, once the conflicts had ended, the tendency was to return to the situation which had previously prevailed, with the resumption of supplies from foreign sources.

The development policies mentioned have been adopted only in the last twenty years, since for almost the whole of this century industrialization policies have been evolved more to solve concrete problems than to forestall events through a co-ordinated series of medium and long-term measures.

Of the three types of factors mentioned, the main one was balance-of-payments difficulties, and it was only through import-substitution that countries like Argentina which were traditionally suppliers of raw materials could adapt to the increasing protectionism in the world markets, which was still more marked after the 1930 crisis.

Concomitant phenomena were population growth, which led to increasing domestic consumption of exportable goods, and inelastic export supply, deterioration in the terms of trade and a steady growth of domestic demand for manufactured products.

The steady relative decrease in exports had therefore necessarily to be offset by a corresponding decrease in imports. The proportion of gross domestic product accounted for by each of them thus dropped from a little more than 26 per cent at the beginning of the century to only 6 or 7 per cent in 1970.

On the other hand, in view of the virtually permanent deficit in external financial transactions, it was indispensable to maintain an equilibrium in the balance of trade.

As a result of this situation, industrial promotion was based primarily on establishing high protective barriers in the form of high import duties on products whose manufacture was being undertaken, while at the same time permitting inputs and machinery to be imported at reduced tariffs or no tariffs at all.

Moving on to more advanced levels of production of intermediate and capital goods inevitably meant a reduction in the effective degree of protection because the customs duties on the new product had to be increased. As the process of creating domestic industry continued, through the introduction of other sectors, there were adverse reactions from the sectors already established, which found that they were being placed at something of a disadvantage by the protection granted to newcomer sectors.

In this context, the producers of capital goods were the worst off, since from the outset they had to face pressure against them from users in almost all parts of existing industry. Most of these enterprises were started up as repair shops for imported goods and sometimes found themselves in a position of negative protection, since not only did the goods concerned enjoy reduced customs duty, but the inputs which these enterprises purchased from domestic industry were heavily protected, making it necessary in some cases to pay more than twice the international price. None the less, in the case of many domestically produced capital goods, it was possible to overcome these difficulties and this resistance through a constant improvement in the products (which were even exported) and also through a more appropriate tariff policy.

The measures taken from 1958 onwards have not always avoided the conflict among the various industrial sectors which has been described above; they have been primarily aimed at making existing industry less old-fashioned and continuing import-substitution, particularly with regard to intermediate goods. The capital goods sector has therefore not been the object of direct promotion, with the exception of products for primarily non-industrial uses, such as tractors, heavy lorries, road-building machinery and ship-building equipment. In the last years of the period considered, once various intermediate product sectors were taken care of, the capital goods industry started to receive real attention, in order to sustain the process. There were a number of reasons behind this policy, including the following:

(a) It is the domestic economy that benefits from such developments, making it possible for the process to be self-sustaining and preventing balance-of-payments bottlenecks;

(b) Large-scale production is not required;

(c) A large proportion of labour, in particular skilled labour, is used in comparison with capital;

(d) Technological development is encouraged, either through the acquisition of foreign patents or through applied domestic research.

Promotion in the period 1958-1965

The succession of measures affecting the industrial sector that were taken up to 1965 faithfully reflect the views that prevailed with regard to industrialisation strategy. That strategy was the result of two basic objectives of economic policy, namely, to accelerate or give fresh momentum to the process by re-equipping existing sectors and developing new industrial sectors, while at the same time promoting industrial regionalisation. This was achieved on the basis of strong support for private enterprise and foreign investment.

It was imperative that industry should be provided with new equipment since most of the equipment existing in 1958 was obsolete owing to the agriculture-oriented policies of the 1950s (improvement of relative prices, primarily through manipulation of the rate of exhange). The result was massive imports of equipment, which systematically aggravated the balance-of-payments bottlenecks, although the capital goods sector also benefited from the high rate of investment reached in 1960 and 1961. The dependence of the Argentine economy on imports of intermediate products and equipment for industrial use was (and still is) a definite impediment to both short-term and long-term policies. In the short term, the measures to revive industry stimulated imports of intermediate products; while the policies to promote new investment resulted in pressures on the trade balance arising from the import of capital goods. Consequently, investment, as an autonomous expenditure was not an effective stimulus because a large part of the multiplier effect was lost.

The aim during this period was to complete import-substitution with respect to consumer durables, (particularly automobile industry products) - a sector, incidentally, giving rise to a demand for inputs which made it possible for a supporting parts-and-components industry financed primarily by domestic capital to flourish on a considerable scale. The development of basic industries such as iron and steel, cellulose, petrochemicals and chemicals was also intensified, one of the main instruments for this purpose being Decree No. 3113/64.

Although this policy tended to reduce the degree of dependence with regard to the supply of other key goods for industry, the dependence on imports of capital goods and raw materials increased, except in the automotive industry, which was able to supply itself almost entirely from local production. As far as raw materials were concerned, the need to import continued to be a problem, although the raw materials imported were less highly processed.

For example, an average of 47 per cent of the country's cellulose requirements are at present being met by imports; of this, 94 per cent is of the long-fibre type. At the same time, self-sufficiency has been achieved with regard to paper, with the exception of newsprint, all of which is imported, and special papers, for which 54 per cent of requirements are met by imports.

In the petrochemical industry, there is also a large proportion of imports, particularly of certain products. In 1960, imports covered 52 per cent of apparent domestic demand for synthetic fibres and yarns, and although the proportion had declined to 9 per cent by 1965, imports of the raw materials, e.g. caprolactam, adipic acid and hexamethylenediamine, increased sharply over the same period.

There was a similar trend in the iron and steel industry.

It can none the less be stated that effective substitution for import value added took place.

From the regional point of view, promotion was primarily directed towards the industrial utilization of raw materials in their areas of origin, and in some cases towards the provision of jobs for the labour force. Although these

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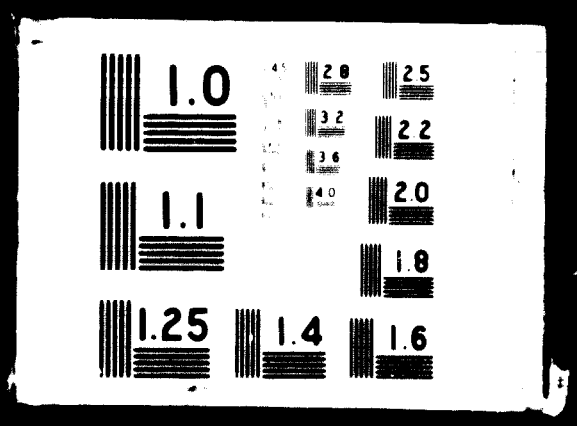


Table 9

Output of Road-Making Machinery

(in units)

Year	Front Loaders	Motor Graders	Excavators	Total
1969	11	43	34	88
1970	167	468	61	696
1971	367	491	71	929
1972 (*)	169	192	37	398

(*) January-March

Table 10

Production of Motor Vehicles
(in units)

Year	Motor Cars	Lorries, Buses, etc.	Total
1958	27,833	1	27,834
1959	32,115	837	32,952
1960	73,750	15,588	89,338
1961	129,982	23,206	136,188
1962	115,685	14,195	129,880
1963	96,457	8,442	104,899
1964	153,241	13,242	166,483
1965	177,701	16,835	194,536
1966	166,914	12,539	179,453
1967	163,138	12,180	175,318
1968	167,522	13,454	180,976
1969	200,056	18,534	218,590
1970	203,945	15,654	219,599
1971	236,424	17,216	253,640
1972 (*)	122,433	9,765	132,198

(*) January - June

Table 11

Tractor Output

(in units)

Year	Output
1958	11,083
1959	12,566
1960	20,229
1961	14,716
1962	11,742
1963	11,427
1964	13,105
1965	13,568
1966	11,264
1967	9,538
1968	9,833
1969	9,003
1970	10,990
1971	13,822
1972 (*)	6,446

(*) January - June

Table 12

Iron and Steel Output
(thousands of tonnes)

Year	Billets	Crude Steel	Hot Rolled	Cold Rolled	Total
1958	29.2	244.3	876.2	19.6	1,169.3
1959	32.0	214.2	776.0	17.3	1,039.5
1960	180.7	300.0	773.1	25.8	1,279.6
1961	393.1	473.6	910.3	27.3	1,604.3
1962	396.5	659.0	763.1	13.4	1,832.0
1963	424.2	912.8	768.7	44.5	2,150.2
1964	589.4	1,267.3	1,329.8	236.1	3,422.6
1965	663.2	1,370.5	1,542.9	281.8	3,658.4
1966	520.1	1,265.6	1,274.2	222.4	3,302.3
1967	600.6	1,347.6	1,348.2	245.0	3,541.4
1968	573.7	1,578.7	1,778.0	296.4	4,226.8
1969	588.3	1,720.1	1,978.0	363.3	4,649.7
1970	815.1	1,859.4	2,233.4	514.0	5,421.9
1971	872.7	1,951.2	2,475.5	743.6	6,043.0
1972 (*)	396.9	965.8	1,225.1	343.0	2,930.8

(*) January - June

Table 13

Pulp Output
(in tonnes)

Year	Mechanical	Long Fibre chemical	Short fibre chemical and Semi chemical	Total
1958	18,311	16,331	44,058	78,700
1959	16,700	18,639	50,861	86,200
1960	18,396	17,669	37,215	73,300
1961	17,264	21,936	50,000	89,200
1962	18,816	21,785	46,841	87,442
1963	24,623	20,121	54,045	99,289
1964	23,543	19,460	64,578	107,369
1965	23,270	16,100	111,324	150,694
1966	19,976	15,400	118,893	154,269
1967	20,587	20,940	73,805	115,332
1968	22,381	24,726	100,917	148,024
1969	21,259	24,280	120,480	164,019
1970	27,946	27,945	149,890	205,781
1971	31,652	29,321	183,594	244,567
1972 (*)	6,565	5,596	35,955	48,118

(*) January - February

Table 14

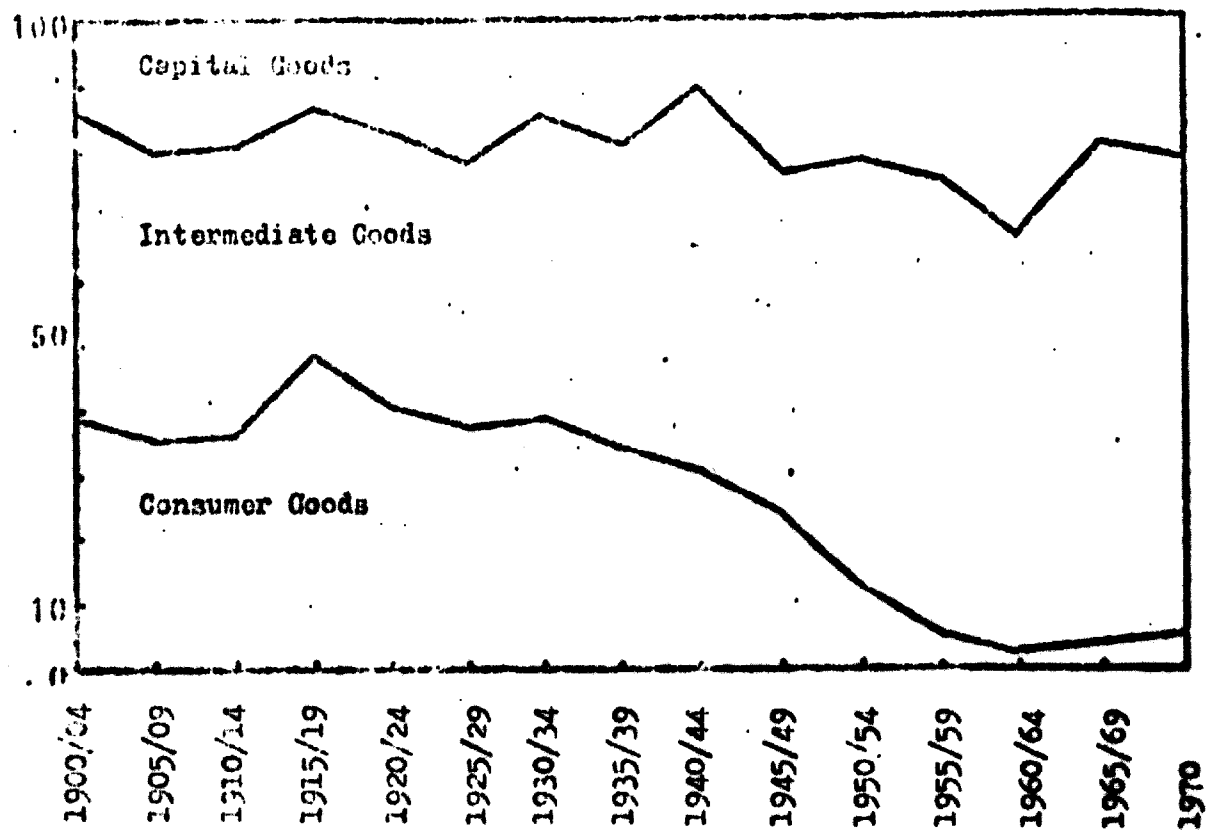
Paper and Board Output

(in tonnes)

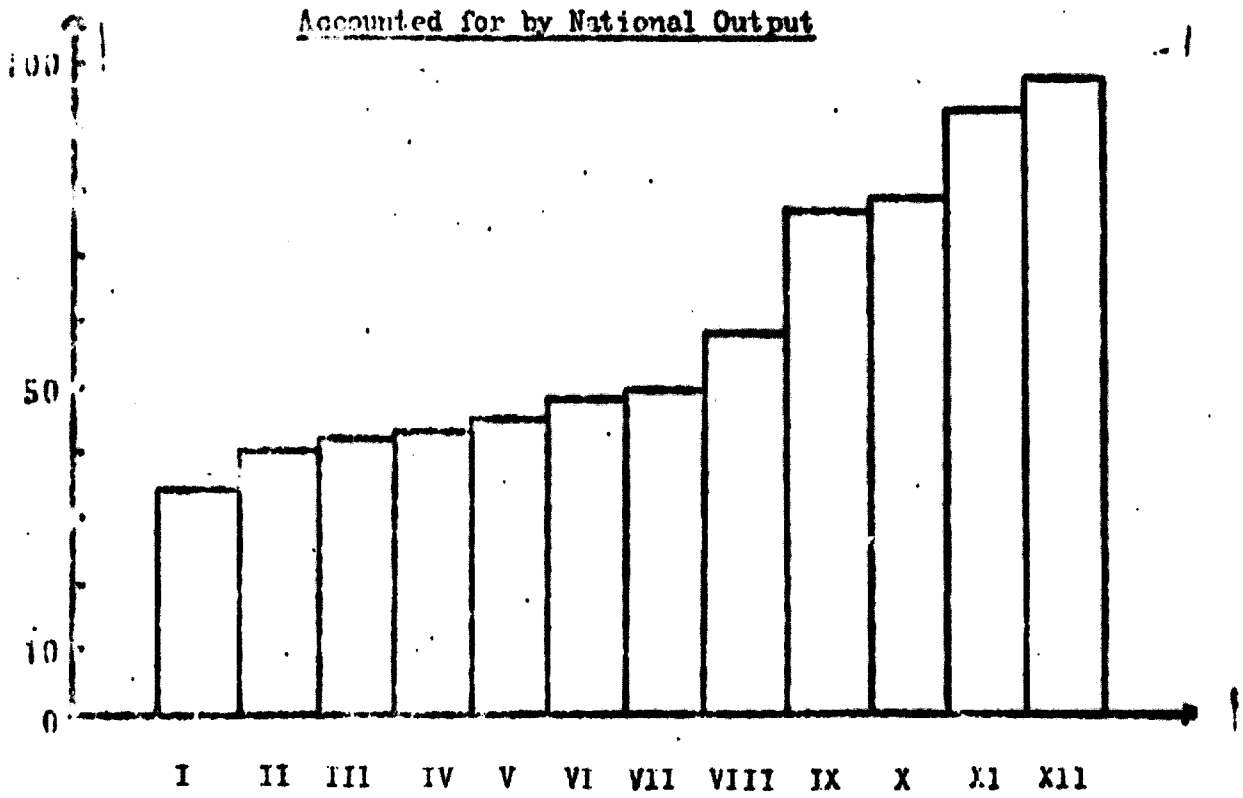
Year	Newsprint	Building and Printing	Kraft and Wrapping	Corrugating Medium	Tissue	Cardboard and Bristol board	Others	Total
1955	-	57,800	93,200	98,000	-	128,400	69,300	356,500
1959	-	54,700	84,400	39,600	-	111,700	55,800	346,200
1960	9,324	66,617	72,595	32,586	8,774	89,278	17,776	290,952
1961	9,281	75,208	95,753	41,515	12,399	116,400	21,460	372,057
1962	12,500	74,698	87,855	40,131	17,995	113,401	18,477	365,057
1963	21,718	69,761	99,690	51,817	14,316	99,758	14,889	371,949
1964	12,009	79,896	122,206	59,830	19,477	135,789	14,515	443,722
1965	4,409	101,361	137,972	76,673	23,068	163,265	16,686	523,434
1966	2,602	111,217	151,161	74,559	18,798	150,478	17,177	525,992
1967	3,239	90,474	128,133	68,402	22,185	143,202	16,025	471,660
1968	4,052	104,510	148,040	79,675	24,551	153,512	16,732	531,072
1969	1,826	108,633	159,828	94,115	31,317	166,170	18,000	581,889
1970	3,167	122,628	173,228	100,894	93,083	182,141	28,302	643,443
1971	2,612	131,344	181,540	104,982	38,046	190,902	31,276	680,702
1972(*)	544	18,877	28,379	18,412	5,938	32,047	4,914	109,111

(*) January - February

Percentage Composition of Imports



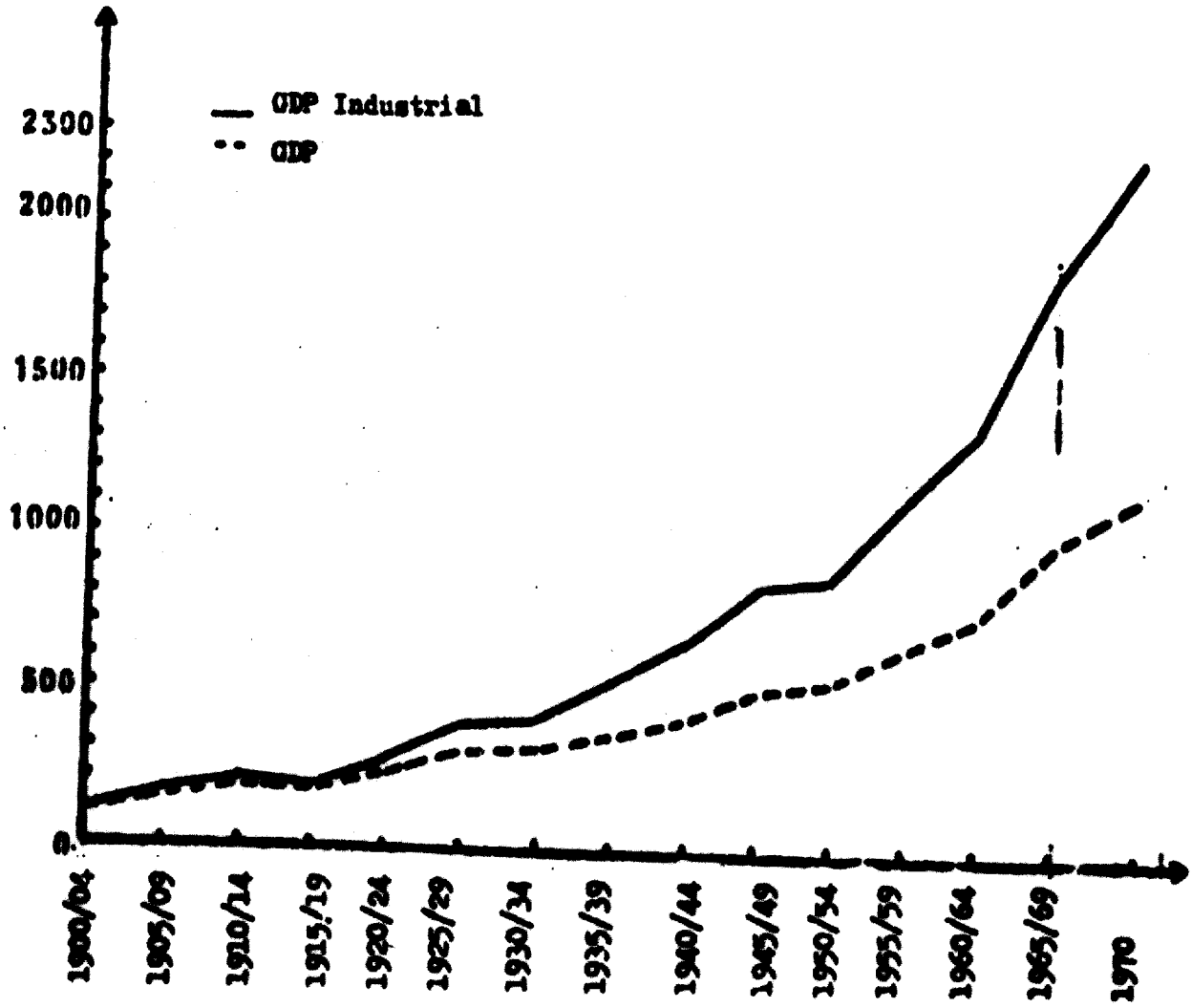
Proportion of Apparent Demand for Equipment Accounted for by National Output



I. Processing Equipment
II. Pumps, compressors
III. Roadmaking equipment
IV. Rail transport
V. Low-growth industry equipment
VI. Growth industry equipment
VII. Sea Transport
VIII. Prime movers
IX. Electrical machinery and apparatus
X. Measuring instruments
XI. Tractors
XII. Agricultural machinery

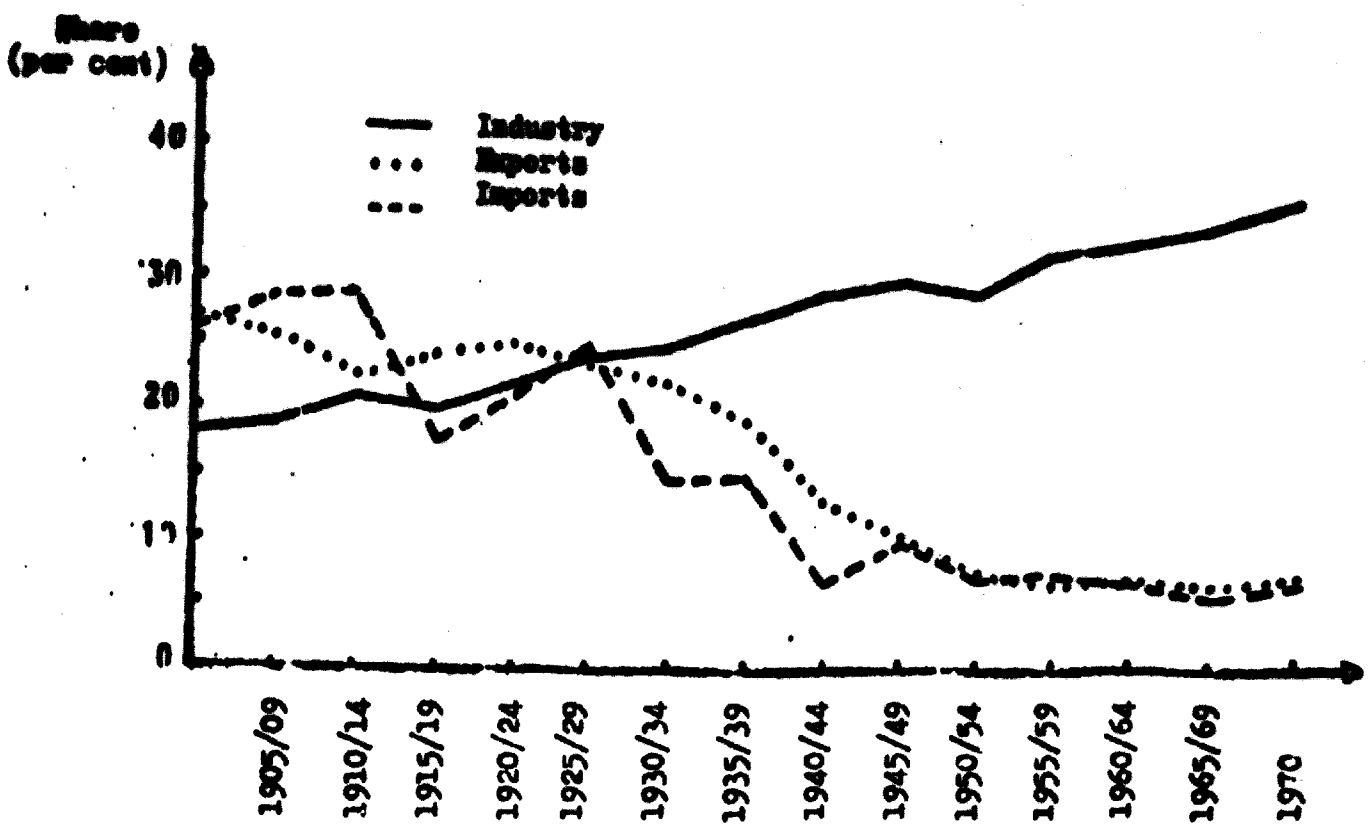
Trend in Gross Domestic Product (GDP) and Industrial GDP

by five-year periods (1900/04 = 100)



Industrial GDP, Imports and Exports as Percentage of Total GDP

(by five-year periods)



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