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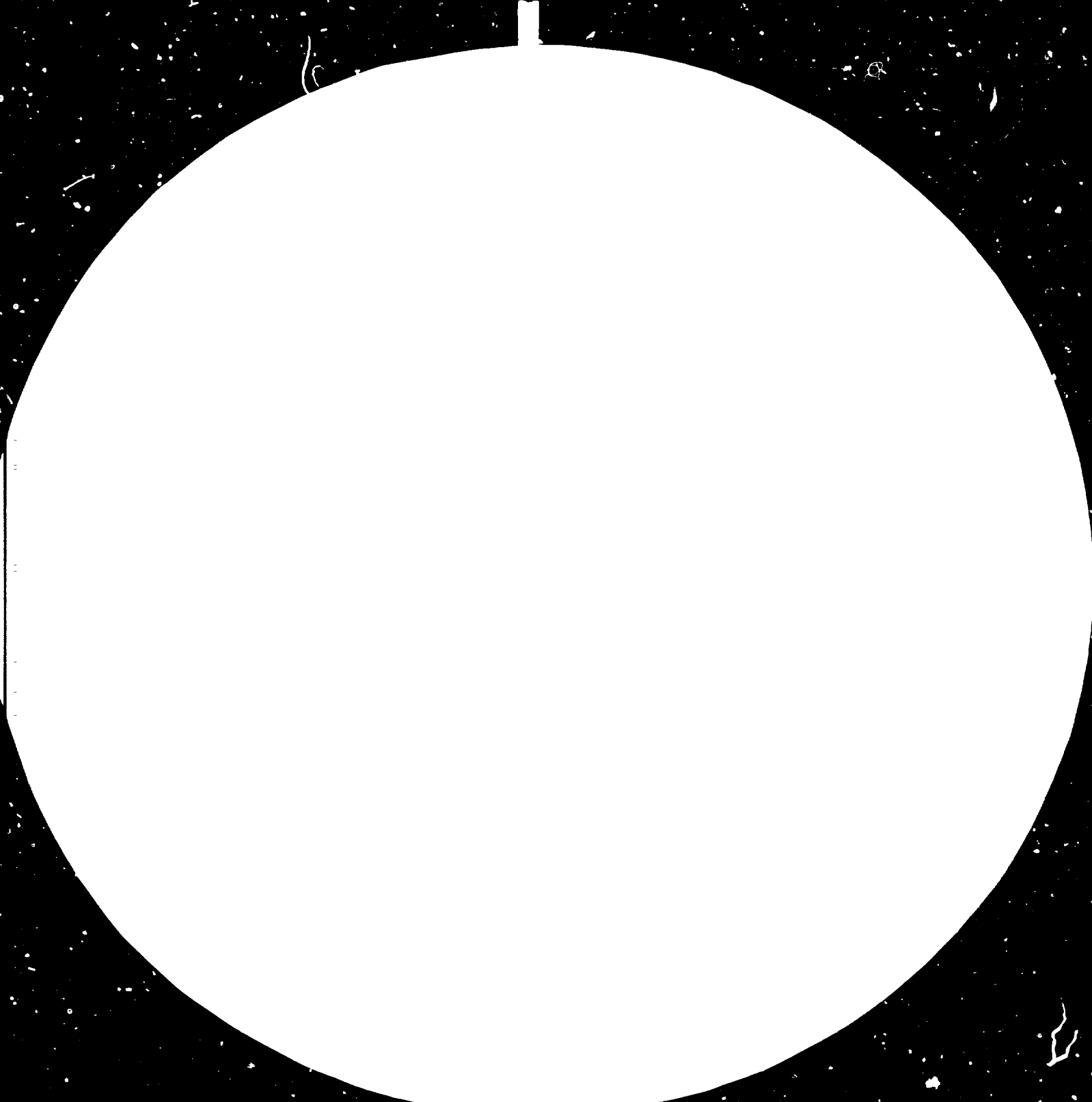
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COUNTRY INDUSTRIAL DEVELOPMENT PROFILE
OF ARGENTINA*

Prepared by the

International Centre for Industrial Studies

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PREFACE

The International Centre for Industrial Studies, Regional and Country Studies Section, has undertaken, under its 1978-1979 work programme, the preparation of a series of Country Industrial Development Profiles. These profiles are desk studies, providing statistical and economic analyses of the industry sector, its growth, present status and future prospects. It is hoped that the profiles will provide analyses of use to programming technical assistance, industrial redeployment and investment co-operation activities.

This profile on Argentina is based on documents, reports and studies available at UNIDO Headquarters. No field survey has been undertaken and some of the data on industry are not up-to-date.

The views or comments contained in this document do not reflect those of the Government of Argentina nor do they officially commit the United Nations Industrial Development Organization to any particular course of action.

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Chapter I

GENERAL ECONOMIC BACKGROUND

Argentina occupies an area of 2.8 million square kilometers and is, after Brazil, the largest land mass in Latin America. Its population is just over 26 million. One-third of these live in the Greater Buenos Aires Area. By most of the current development standards, Argentina is in the top rank of the developing nations. ^{1/} Gross domestic product per capita in 1970 prices was US\$1,277 in 1978, the second highest in Latin America, Venezuela, having a GDP per capita of US \$1,379 in 1970 prices. The adult literacy rate is above 90 per cent. The caloric and protein intake is 126 per cent and 105 per cent, respectively, of normal requirements. Life expectancy for the adult male and female is in the upper sixties. Access to electricity is available to over 80 per cent of the population. While infant mortality was registered at 63.1 per thousand in the year 1970, there was a considerable geographical dispersion. In the Federal Capital, it was 42.1 and in La Pampa only 37.3, but in the province of Jujuy, it was 132.6. Paved roads, although concentrated around the main urban areas, reaches to all of the provincial capitals and to a considerable number of lesser cities. The population growth rate has been steadily declining over the past quarter of a century: from 2.0 per cent in 1950 it declined to 1.4 per cent in 1964 and then to 1.3 per cent in 1971, where it has held steady.

Gross domestic product

The decade of the sixties and early seventies were generally years of steady growth in gross domestic product. GDP annual growth rates were

^{1/} Not a few persons, inside and outside of Argentina, would place Argentina among the lower ranks of the industrially developed nations.

4.4 per cent in 1965, 4.8 per cent in 1971, 6.1 per cent in 1973 and 6.5 per cent in 1974. Following two years of decline in 1975 and 1976 (years of world recession following the jump in the price of oil), of 1.3 per cent and 2.9 per cent, respectively, economic activity rose by 4.4 per cent in 1977 (Table 1). Economic growth since 1960 has caused certain changes in the structure of Argentinian gross domestic product, as can be seen in Table 1. The agricultural sector's share in GDP declined from 16.6 per cent in 1960 to 13.0 per cent in 1977. The manufacturing sector, however, improved its contribution to the national economy from 31.1 per cent of GDP in 1960 to 36.5 per cent in 1977.

Gross domestic fixed investment

Expenditures for gross domestic fixed investment for the period 1960 through 1977 (in constant prices) show a rising trend over the past two decades commensurate with the increase in gross domestic product, with the result that its share of GDP has remained fairly constant. (By the same token, consumption has maintained its share of GDP over the same period). Except for a couple of years, GDFI has not fallen below 20 per cent of GDP. Prior to the 1975/76 crisis, it had reached 23.3 per cent in 1972. Private investment has represented just under two-thirds of gross domestic fixed investment over the years, but it declined sharply with the advent of the crisis of 1975 and 1976. In 1976 and 1977, the private sector's share plummeted to 39.6 per cent and 32.8 per cent, respectively. This helps to explain in part the rise in the share of public investment in the same years, which also had the result of raising GDFI to a record level in 1977, 8.7 per cent over the previous high of 1974. (Tables 2 and 3).

Table 1. Argentina - Gross domestic product of industrial origin at constant prices, 1960=100

	1960	1965	1970	1971	1972	1973	1974	1975	1976	1977/1
(In millions of 1960 \$)										
Agriculture	1,536.6	1,834.9	1,940.6	1,864.8	1,697.8	1,983.6	2,101.7	2,039.0	2,099.4	2,247.4
Mining	102.7	159.3	248.3	257.3	263.2	254.9	260.4	248.5	250.3	272.3
Manufacturing	2,878.0	3,882.1	4,977.9	5,458.5	5,783.9	6,151.6	6,578.0	6,742.9	6,058.9	6,291.4
Construction	389.9	365.9	674.8	631.9	682.6	649.0	728.3	638.6	565.8	641.1
Electricity, gas and water	114.8	210.8	319.8	348.4	385.5	413.2	440.0	448.1	484.2	508.5
Transport and communications	230.2	884.5	1,055.6	1,094.8	1,115.0	1,189.5	1,241.8	1,218.1	1,165.2	1,232.9
Commerce, restaurants and hotels	1,249.4	2,043.4	2,716.2	2,881.4	2,765.9	2,853.3	3,122.9	3,081.2	2,888.4	3,056.4
Banking	346.1	413.1	489.6	512.7	538.9	563.7	598.4	634.5	637.0	658.2
Government and other services	1,401.7	1,633.6	1,938.3	1,950.3	2,028.7	2,167.3	2,228.1	2,337.0	2,342.2	2,333.6
GDP at factor cost	9,249.4	11,457.8	14,121.3	14,800.3	15,262.3	16,196.1	17,244.4	17,017.9	16,531.4	17,242.2
Net indirect taxes	874.6	1,083.8	1,338.0	1,398.1	1,442.1	1,531.0	1,629.8	1,609.3	1,581.4	1,629.6
GDP at market prices	10,124.0	12,541.6	15,459.3	16,198.4	16,704.6	17,727.1	18,874.4	18,626.2	18,082.8	18,871.8
ANNUAL GROWTH RATES										
Agriculture	..	3.6 %	..	..	..	..	..	..	..	..
Mining	..	9.2	..	..	..	..	..	..	..	..
Manufacturing	..	6.2	..	..	..	..	..	..	..	..
Construction	..	-0.2	..	..	..	..	..	..	..	..
Electricity, gas and water	..	12.9	..	..	..	..	..	..	..	..
Transport and communications	..	3.9	..	..	..	..	..	..	..	..
Commerce, restaurants and hotels	..	9.4	..	..	..	..	..	..	..	..
Banking	..	2.3	..	..	..	..	..	..	..	..
Government and other services	..	3.1	..	..	..	..	..	..	..	..
GDP at factor cost	..	4.4	..	..	..	..	..	..	..	..
Net indirect tax	..	4.4	..	..	..	..	..	..	..	..
GDP at market prices	..	4.4	..	..	..	..	..	..	..	..
AS PERCENT OF GDP AT FACTOR COST										
Agriculture	16.6	16.0	13.7	12.4	11.1	12.2	12.2	11.9	12.7	12.0
Mining	1.1	1.4	1.7	1.7	1.7	1.6	1.5	1.5	1.5	1.6
Manufacturing	31.1	33.9	33.3	36.9	37.9	38.0	37.8	37.3	36.7	36.5
Construction	4.0	3.2	4.8	4.4	4.5	4.0	4.2	3.9	3.4	3.7
Electricity, gas and water	1.2	1.8	2.2	2.4	2.5	2.5	2.6	2.7	2.9	3.0
Transport and communications	2.5	7.7	7.5	7.4	7.3	7.3	7.2	7.2	7.1	7.2
Commerce, restaurants and hotels	14.9	18.1	17.8	18.1	18.1	17.6	18.1	18.1	17.5	17.7
Banking	4.0	3.6	3.5	3.5	3.6	3.5	3.5	3.7	3.5	3.8
Government and other services	15.2	14.3	13.4	13.2	13.3	13.3	12.9	13.7	14.2	13.5
GDP at factor cost	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Net indirect taxes	9.5	9.5	9.5	9.4	9.4	9.5	9.5	9.5	9.5	9.5
GDP at market prices	109.5	109.5	109.5	109.4	109.4	109.5	109.5	109.5	109.5	109.5

Source: World Bank Report No. 2700-AR, Economic Memorandum on Argentina, 26 November 1978.

- 1/ Preliminary
- 2/ End-point average growth rate of 1960-1965.
- 3/ End-point average growth rate of 1965-1970.

Table 2. Gross domestic fixed investment as share
of gross national product, 1960-77

(%)

1960	20.6	1973	22.0
1965	17.3	1974	21.4
1970	21.8	1975	20.2
1971	22.8	1976	19.8
1972	23.3	1977	22.6

Source: Computed from GDP and gross domestic fixed investment figures contained in World Bank Report No. 2208-AR, op. cit.

Table 3. Argentina - Gross domestic investment at constant prices, 1960-1977

(In millions 1960 \$a)

	1960	1965	1970	1971	1972	1973	1974	1975	1976	1977 ^{1/}
Gross domestic fixed investment, by assets	2,079.1	2,167.5	3,334.0	3,648.9	3,838.2	3,850.7	4,001.2	3,713.8	3,514.7	4,230.3
Construction	873.1	853.9	1,470.0	1,459.7	1,500.4	1,435.7	1,619.9	1,486.5	1,297.2	1,424.0
Public	340.9	286.3	616.3	634.3	721.3	648.7	709.7	543.3	424.4	443.6
Private	532.2	567.6	853.7	825.4	779.1	787.0	910.2	943.2	872.8	980.4
Machinery and equipment	1,206.0	1,313.6	1,864.0	2,189.2	2,337.8	2,415.0	2,381.3	2,227.3	2,217.5	2,806.3
Transport equipment	441.2	555.2	626.8	709.3	751.7	809.0	766.4	654.9	589.6	811.5
Machinery	764.8	758.4	1,237.2	1,479.9	1,586.1	1,606.0	1,614.9	1,572.4	1,627.9	1,995.0
Gross domestic fixed investment, by sector	2,079.1	2,167.5	3,334.0	3,648.9	3,838.2	3,850.7	4,001.2	3,713.8	3,514.7	4,230.3
Public	..	758.5	1,273.1	1,381.5	1,469.3	1,358.2	1,602.3	1,314.0	2,122.9	2,842.9
Private	..	1,409.0	2,060.9	2,267.4	2,368.9	2,492.5	2,398.9	2,399.8	1,390.8	1,387.6
Change in stocks	97.1	63.8	67.4	100.1	104.3	114.8	45.8	40.8	7.2	-22.2
Gross domestic investment	2,176.2	2,431.3	3,401.4	3,749.0	3,942.6	3,965.5	4,047.0	3,754.6	3,521.9	4,208.1

Source: World Bank Report No. 2208-AR, Economic Memorandum on Argentina, 26 November 1978.

^{1/} Preliminary.

Chapter II

INDUSTRIAL SECTOR: MANUFACTURING

Historical development

Argentina's industrial activities date back to the end of the last century when the country was in a position to export agricultural products at relatively low cost, leading to high income levels. There are indications that income distribution was such that it could provide a local demand to warrant the establishment of national industry. These infant industries enjoyed a fair amount of natural protection due to the distance from the world's main production centres.

At the turn of the century some twenty per cent of the Argentine labour force was engaged in manufacturing, and the sector contributed 15 per cent to total output. The sector consisted of a large number of small factories mainly in food processing, non-metallic minerals, branches of the chemical industry, and printing and publishing. The World Depression of the 1930s provided the justification for giving greater impetus to the manufacturing sector. Unlike the conditions which prompted initial development of the industry, this growth was stimulated by protectionist measures to facilitate import substitution. During World War II and immediately after, when the industrialized nations were unable to supply their traditional exports to Argentina, national manufactured products increased their share of total supply in the Argentine market from 75 per cent to 85 per cent. Joining the ranks of textiles and rubber which had grown substantially during the 1930s, were new basic industries in metalworking, electrical machinery and non-electrical machinery, and appliances.

In order to maintain the share of national products in the local market after World War II, the Government approved a number of measures to protect national industries and to stimulate industrial growth. Among these were high tariffs, quantitative restrictions, an sizeable indirect subsidies. The State also invested directly in the means of production. With the passage of time, it became evident, by the late sixties, even when the manufacturing sector was enjoying its fastest growth, that these measures had their negative side. Argentine industrial products were becoming non-competitive in international markets, in part because of the higher costs induced by the excessive protection and also by the unrealistic exchange rate. Serious other effects were those on the agricultural sector whose exports, fundamental to the nation's balance of payments were curtailed by the exchange rate policies. The cumulative political and economic effects of these stresses erupted in the crises of the spring of 1976 when the nation was faced at the same time with a deepening economic recession, a galloping inflation, and an imminent incapacity to meet its foreign obligations.

Manufacturing in relation to gross domestic product

Manufacturing represents the principal sector in the gross domestic product, its share rising from 31.1 per cent in 1960 to 36.5 per cent in 1977 (down from its peak of 38.0 per cent in 1973). Manufacturing output reached its peak in 1974, then declined by 2.8 per cent in the recession year of 1975. It rose by 4.5 per cent in 1976 and again in 1977 by 3.8 per cent (Table 1). It fell off sharply early in 1978 and the decline for first nine months of the year was 9.4 per cent. This attributed to three causes: a process of disaccumulation of inventories beginning in the first quarter; reduced purchasing power resulting from the decline in real wages and salaries; and the sharp reduction in the rate of private investment which brought with it a decline in the production of capital goods. The continued rise in manufactured exports could not stop the decline, since they were rather the consequence

of the dwindling home markets. Utilization of manufacturing capacity reached its high point during the last two years of industrial boom: 78.9 per cent in 1973 and 79.4 per cent in 1974. Rate of operations remained at 72.6 per cent and 72.5 per cent in 1976 and 1977 respectively despite the recovery in production as additional capacity became available. It fell sharply to 64.0 per cent in the first quarter of 1978 as the decline moderated through the rest of the year.

Parallel with the rising share of manufacturing, agriculture shows a declining trend: from 16.6 per cent in 1960 to a low of 11. per cent in 1972. It rises again to 12.7 per cent in 1976 and 13.0 per cent in 1977, as exports resumed their climb. Other sectors have mainly maintained their respective shares, between 1970 and 1977. For these years, the shares were: for mining, 1.7 per cent and 1.6 per cent; construction 4.8 per cent and 3.7 per cent; electricity, gas and water 2.3 per cent and 3.0 per cent; transport and communications 7.5 per cent and 7.2 per cent; commerce, restaurants and hotels 17.8 per cent and 17.7 per cent; banking 3.5 per cent and 3.8 per cent and Government and other services 13.4 per cent and 13.5 per cent. (Tables 1 and 4).

Manufacturing in modern branches

The growing importance of the so-called modern branches - basic metals, metals, machinery and transport equipment, and chemical industries - is worth noting over the past two decades. These doubled their output between 1960 and 1970, the annual growth rate averaging 8 per cent. Between 1970 and 1977, the growth rate slowed down to around 4 per cent. As a consequence of this expansion, the share of these industries rose from around 30 per cent of value added in manufacturing in 1950 to over 60 per cent in 1972, where it has remained through the late 1970s. Over the 17-year period between 1960 and 1977, manufacturing production rose by 118 per cent, while the traditional industries grew at a lesser rate: food-beverages-tobacco by 66.5 per cent and textiles-clothing-leather goods by 42.8 per cent. Wood products and furniture in fact showed a decline of 7 per cent

in 1977, but this clearly was one of the after-effects of the recession years of 1975 and 1976 and the subsequent incomes policy. In the boom years of 1973 and 1974, production was 58.7 per cent and 66.5 per cent over that of 1960. In contrast basic metals production was 209 per cent higher and chemical products 195 per cent higher in 1977 than in 1960 (Tables 6 and 7).

Production of consumer-intermediate-capital goods

Variations in the structure of industrial production in Argentina have followed a well-known pattern. As the industrialization process has gathered momentum, the share of the branches producing consumer goods has tended to fall whereas the shares of the branches producing intermediate and capital goods have shown a substantial increase. In 1914, consumer goods accounted for 75 per cent of total manufacturing production. Included in such industries were food, beverages, and tobacco; textiles, wearing apparel and leather; paper, printing and publishing. Over time, this group of industries yielded ground in relative terms, to the industries producing intermediate goods and capital goods. By 1973, consumer goods accounted for 34.0 per cent of total production. Intermediate goods had increased their share in wood and wood products, chemicals, petroleum and rubber from 12.0 per cent in 1914 to 18.4 per cent in 1969 before sliding off to 17.1 per cent in 1973. Capital goods comprehending non-metallic minerals, basic metals, metallic products and machinery rose from 11.9 per cent in 1914 to 45.1 per cent in 1973. Miscellaneous industries (including handicrafts) rose from 1.0 per cent in 1914 to 12.9 per cent in 1925-29, and then tailed off to 3.8 per cent in 1973 (Table 7).

Manufacturing activity by size and firm

In the manufacturing sector, the smaller firms have given away to the larger firms. A comparison of the figures of the census years, 1963

Table A. Utilization of installed capacity
(annual averages in percentages)

	1972	1973	1974	1975	1976	1977	1978		
							March	June	Sept.
<u>Non-durable consumer goods</u>	<u>74.6</u>	<u>72.2</u>	<u>76.8</u>	<u>74.3</u>	<u>71.9</u>	<u>73.0</u>	<u>74.1</u>	<u>69.4</u>	<u>74.2</u>
Food products	80.4	74.7	78.9	76.9	71.9	74.7	76.1	71.7	76.6
Beverages	57.2	57.2	64.3	59.2	48.4	53.2	48.2	45.1	51.1
Tobacco	81.7	86.3	91.9	98.4	90.9	92.1	100.0	92.6	93.2
<u>Durable consumer goods</u>	<u>82.7</u>	<u>82.2</u>	<u>79.6</u>	<u>80.0</u>	<u>70.0</u>	<u>69.2</u>	<u>57.9</u>	<u>68.6</u>	<u>72.3</u>
Footwear and clothing	89.1	85.5	93.0	92.0	84.4	77.1	63.8	76.1	73.6
Pharmaceutical products	81.7	80.0	76.1	73.7	72.0	75.7	74.2	73.7	71.2
Non-electrical household articles	73.2	73.3	79.7	84.4	66.3	68.4	57.8	62.3	67.0
Manufacture of motor vehicles	78.4	81.6	68.2	71.9	57.1	66.1	45.1	60.0	72.5
<u>Capital goods</u>	<u>72.4</u>	<u>76.1</u>	<u>79.9</u>	<u>71.6</u>	<u>71.2</u>	<u>73.9</u>	<u>66.9</u>	<u>70.6</u>	<u>73.7</u>
Manufacture of non-electrical machinery	76.9	81.9	82.9	64.9	-	77.0	76.7	60.3	82.8
Manufacture of agricultural machinery and equipment	63.2	64.2	33.3	75.2	75.6	77.9	25.8	33.6	41.0
Manufacture of electrical machinery	69.2	67.2	76.7	71.5	74.0	70.9	66.9	66.9	72.3
Manufacture of electronic and communication equipment	72.4	70.1	66.3	66.4	61.2	69.4	69.6	69.0	67.9
<u>Intermediate goods</u>	<u>81.5</u>	<u>81.4</u>	<u>80.4</u>	<u>78.4</u>	<u>74.3</u>	<u>73.3</u>	<u>60.8</u>	<u>73.3</u>	<u>78.7</u>
Textiles	88.0	90.3	89.6	86.8	79.9	79.1	63.7	81.9	87.8
Paper	90.0	87.3	87.3	82.4	76.0	74.4	65.1	78.6	82.9
Leather and fur products	83.3	91.3	83.1	84.0	91.4	83.9	90.0	94.1	91.8
Rubber products	90.7	81.1	87.1	85.8	83.3	75.8	69.1	68.1	82.0
Plastic products	71.6	67.8	75.7	64.9	56.1	63.2	48.0	56.4	66.7
Industrial chemicals	78.7	70.6	76.9	74.6	75.2	75.6	67.6	75.7	80.3
Petrochemical products	89.5	87.8	83.2	74.5	77.5	66.4	55.6	62.0	74.9
Manufacture of cement and lime	71.4	67.7	70.0	71.4	76.4	86.3	82.4	77.9	85.1
Pottery, china, glass and earthenware	84.0	79.4	83.9	82.4	74.0	70.6	48.2	62.4	66.1
Iron and steel basic industries	74.9	72.4	61.5	62.6	59.1	57.3	54.2	68.9	70.8
Non-ferrous basic industries	84.4	76.1	75.2	72.2	62.7	65.6	47.9	56.3	66.1
Various metallurgical products	70.4	74.2	72.0	71.5	64.4	64.0	45.1	59.9	65.1
Automobile spare parts and repair equipment	75.5	79.9	82.2	61.9	63.6	75.3	35.4	53.2	57.6
<u>Total manufacturing industry</u>	<u>77.5</u>	<u>78.9</u>	<u>79.4</u>	<u>76.9</u>	<u>72.6</u>	<u>72.5</u>	<u>64.0</u>	<u>71.2</u>	<u>75.8</u>

Source: Fundación de Investigaciones para el Desarrollo (FIDE), *Coyuntura y Desarrollo*, No. 4, December 1978.

Table 5. Structural change of value added in manufacturing, 1960 - 1976
(on the basis of 1970 US \$ constant prices)

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977
31 Food, Beverages, Tobacco	19.82	18.77	21.07	22.48	18.96	17.82	18.85	19.32	18.60	17.48	17.20	15.78	15.36	14.91	15.75	16.06	16.87	15.61
32 Textiles and Wearing Apparel	18.99	17.78	15.26	15.06	15.52	15.60	14.89	14.55	14.33	12.9d	12.50	12.30	12.06	12.08	11.92	12.74	12.77	11.54
33 Wood and Wood Products	2.51	2.69	2.69	2.57	2.46	2.43	2.53	2.31	2.32	2.23	2.10	2.00	1.93	1.85	1.81	1.63	1.24	1.05
34 Paper, Printing, Publishing	4.80	5.14	5.11	5.14	4.80	5.09	5.26	4.96	4.99	4.81	5.00	5.03	4.88	4.52	4.62	4.67	4.58	4.65
35 Chemical, Petroleum Derivatives, Rubber and Plastics	14.65	15.26	15.54	16.00	16.72	17.02	16.84	17.15	17.70	18.90	19.10	19.50	19.82	19.87	19.37	19.92	20.76	20.92
36 Non-Metallic Minerals	4.78	4.85	5.01	4.72	4.31	4.48	4.81	4.93	5.34	5.31	5.40	4.91	4.77	4.55	4.25	4.41	4.71	4.22
37 Basic Metals	4.76	5.08	5.04	5.33	6.10	6.08	5.64	5.67	6.01	6.28	6.40	6.57	7.01	6.93	7.65	7.72	6.77	6.76
38 Metals, Machinery and Transport Equipment	29.08	29.85	29.70	28.11	30.57	30.97	30.66	30.57	30.22	31.49	31.80	33.44	33.69	35.01	34.18	32.41	32.75	34.82
39 Other Industries	0.60	0.57	0.57	0.58	0.55	0.52	0.52	0.54	0.50	0.52	0.50	0.48	0.47	0.46	0.44	0.44	0.44	0.43
Growth Industries (ISIC 35, 37, 38)	48.50	50.19	50.28	49.44	53.39	54.07	53.14	53.39	53.93	56.67	57.30	59.51	60.52	61.81	61.20	60.05	60.28	62.50
Traditional Industries (ISIC 31, 32, 33, 34, 36, 39)	51.50	49.81	49.72	50.56	46.61	45.93	46.86	46.61	46.07	43.33	42.70	40.49	39.48	38.19	38.80	39.95	39.72	37.50
TOTAL	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Source: UNIDO on the basis of data supplied by UNSO.

Table 6. Index of physical volume of manufacturing production, by sector
(Index base 1960 = 100)

Sectors	1965	1970	1971	1972	1973	1974	1975	1976	1977
<u>Total manufacturing industries</u>	134.9	173.9	189.7	201.0	213.7	226.7	220.4	210.2	218.2
Food, beverages, tobacco	122.9	153.3	156.7	160.0	165.5	175.1	173.2	172.5	166.5
Textiles, wearing apparel and leather	109.7	115.1	122.8	128.7	136.7	152.4	159.3	152.0	142.8
Wood and wood products	129.9	146.5	152.1	156.5	158.7	166.5	145.5	105.0	93.0
Paper, printing and publishing	138.9	176.9	195.3	201.6	198.1	215.3	217.3	201.4	210.7
Chemical, petroleum derivatives, rubber and plastics	156.7	219.3	245.3	263.0	279.9	385.5	285.5	283.5	295.1
Non-metallic minerals, except products of petroleum and coal	127.3	196.8	197.5	203.4	198.2	207.5	208.8	199.4	198.2
Basic metals	182.3	247.2	280.1	316.4	335.2	364.3	357.4	268.4	309.0
Metals, machinery and transport equipment	145.2	191.2	220.4	236.6	261.4	278.4	256.3	246.7	272.3
Other industries	115.9	143.1	150.3	157.5	164.8	165.1	159.5	154.1	157.8

Source: Angel Monti, Análisis Interpretativo del Desarrollo Industrial Argentino, mimeographed working paper prepared for ECLA, September 1978.

Table 7. Industrial structure, 1914 to 1973
(percentages)

	1914	1925-29	1937-39	1948-50	1963	1969	1973
<u>Consumer Goods</u>	<u>75.0</u>	<u>59.0</u>	<u>56.1</u>	<u>54.7</u>	<u>43.0</u>	<u>37.1</u>	<u>34.0</u>
Food, Beverages, Tobacco	56.5	30.2	30.0	24.0	25.3	20.8	18.1
Textiles, Wearing Apparel and Leather	15.9	16.6	18.4	24.1	13.3	12.0	12.1
Paper, Printing and Publishing	2.6	12.2	7.7	6.6	9.9	9.3	3.8
<u>Intermediate Goods</u>	<u>12.0</u>	<u>13.9</u>	<u>16.6</u>	<u>15.4</u>	<u>17.2</u>	<u>18.4</u>	<u>17.1</u>
Wood and Wood Products	8.7	7.4	4.7	5.5	3.1	2.8	2.0
Chemicals, Petroleum and Rubber	3.3	6.5	11.9	9.9	14.1	15.6	15.1
<u>Capital Goods</u>	<u>11.9</u>	<u>13.8</u>	<u>16.8</u>	<u>20.5</u>	<u>32.4</u>	<u>38.1</u>	<u>45.1</u>
Non-Metallic Minerals	3.8	6.2	3.8	4.4	2.8	3.3	3.2
Basic Metals	6.3	5.3	7.3	7.8	4.9	6.1	5.9
Metallic Products & Machinery	1.8	2.3	5.7	8.3	24.7	28.7	36.0
<u>Miscellaneous</u>	<u>1.0</u>	<u>12.9</u>	<u>10.3</u>	<u>9.5</u>	<u>7.9</u>	<u>6.4</u>	<u>3.8</u>
TOTAL	100.0 =====	100.0 =====	100.0 =====	100.0 =====	100.0 =====	100.0 =====	100.0 =====

Source: International Bank for Reconstruction and Development Report No. 540b-AR, Current Economic Position and Prospects of Argentina, 20 February 1975.

Note: From 1925 to 1951 "miscellaneous" includes handicrafts.

and 1973, shows that firms with under 50 workers accounted for 32.3 per cent of value added in manufacturing in 1953 and that this had fallen to 24.3 per cent in 1973. If the cut-off for the small firm is taken at 100 workers, then their value added in manufacturing fell from 42.5 per cent in 1963 to 34.4 per cent in 1973. For those firms with more than 100 workers, their share of total production rose with the most significant increases being registered by firms with over 1,000 employees. Yet the smaller scale firms with up to 10 workers represent 84.5 per cent of the total number of firms in 1973, and they hire 21.2 per cent of the total number of industrial workers. However, their productivity is less than half of the average for the sector (or about one-quarter of the largest firms).

Seen from the standpoint of the 100 largest firms, for the years between 1955 and 1975, the share of manufacturing production varied according to the branch of industry. The 100 largest firms showed declines in shares in the traditional industries: from 35.0 per cent to 33.0 per cent in food processing, beverages and tobacco; from 18.7 per cent to 3.0 per cent in textiles and clothing; from 8.8 per cent to 4.0 per cent in paper, paper products and printing; and from 8.8 per cent to 5.0 per cent in non-metallic minerals. But they increased their share in the non-traditional fields: from 13.7 per cent to 22.0 per cent in petroleum products and rubber; from 5.0 per cent to 9.0 per cent in basic metals; and from 6.2 per cent to 24.0 per cent in machinery and equipment (Tables 8 and 9).

Geographical distribution of manufacturing

Of the 132,444 industrial establishments in the country, according to the National Economic Census of 1974, 19.59 per cent were located in the Capital City and another 37.73 per cent in the province of Buenos Aires; in short, a total of 75,923 firms or 57.32 per cent of the national total were located in the Greater Buenos Aires area. If one adds to this the 15,849 establishments in the nearby province of Santa Fe and the 14,155 firms in the province of Cordoba, then taken together, these three provinces in relative proximity to each other contained 109,927 establishments or 79.98 per cent of the total (Table 10). A succession of Governments have shown an awareness of the problem, and regional development programmes have been formulated and implemented over the past years.

Table 8. Employment, productivity and value added, by size of enterprises

Size in terms of number of workers	Percentage of total establishments			Percentage of of total workers			Relative productivity ^{a/}		Percentage of total value added	
	1946	1963	1973	1946	1963	1973	1963	1973	1963	1973
0-10	58.3	88.6	84.5	18.2	29.8	21.2	49	41	14.7	9.2
10-50	11.5	9.0	11.1	23.6	19.8	19.8	88	77	17.6	15.1
50-100	1.8	1.2	1.6	12.0	9.0	9.6	114	107	10.2	10.1
100-500	1.3	1.0	1.5	24.7	21.1	24.7	132	114	27.8	28.0
500-1000	0.1	0.1	0.2	7.9	7.8	9.1	134	123	10.4	11.0
more than 1,000	0.1	0.1	0.1	13.5	12.4	15.7	154	163	19.2	25.7
Total ^{b/}	100.0	100.0	100.0	100.0	100.0	100.0	100	100	100.0	100.0

Source: Angel Monti, Análisis Interpretativo del Desarrollo Industrial Argentino, mimeographed working paper prepared for ECLA, September 1978.

^{a/} Based on \$ value added per worker.

^{b/} Includes establishments without workers.

Table 9 Share of manufacturing production of the
100 largest enterprises, by sectors

Sector	1955		1975	
	Share in industrial productivity (percentages)	Percentage of the "100" enterprises	Share in industrial productivity (percentages)	Percentage of the "100" enterprises
Food, beverages, tobacco	22.9	35.0	16.0	33.0
Textiles, wearing apparel and leather	21.5	18.7	12.5	3.0
Wood and wood products	2.5	-	1.3	-
Paper, printing and publishing	5.0	8.8	4.1	4.0
Chemical, petroleum derivatives, rubber and plastics	13.9	13.7	19.1	22.0
Non-metallic minerals, except products of petroleum and coal	4.5	8.3	4.0	5.7
Basic metals	3.7	5.0	6.5	9.0
Metals, machinery and transport equipment	19.7	6.2	22.6	24.0
Other industries	6.0	3.8	3.8	-
<u>Total</u>	100.0	100.0	100.0	100.0

Source: Angel Monti, Análisis Interpretativo del Desarrollo Industrial Argentino, mimeographed working paper prepared for ECLA, September 1975.

Table 10. Industrial Survey - Distribution of industrial establishments by size of work force, 1974

	TOTAL		1 - 10		11 - 25		26 - 50		51 - 100		101 - 200		201 - 500		500 & Over	
	(No)	(%)	(No)	(%)	(No)	(%)	(No)	(%)	(No)	(%)	(No)	(%)	(No)	(%)	(No)	(%)
1. Capital	25,948	19.59	20,046	77.25	3,341	12.85	1,301	5.01	660	2.54	351	1.35	189	0.73	60	0.23
2. Prov. BA	49,973	37.73	42,180	84.40	4,146	8.30	1,661	3.32	915	1.83	536	1.07	367	0.73	170	0.34
3. Sta. Fe	15,849	11.97	14,113	89.05	986	6.24	361	2.28	191	1.21	93	0.59	69	0.44	33	0.21
4. Cordoba	14,153	10.69	12,768	90.34	800	5.65	273	1.93	151	1.07	74	0.52	47	0.33	22	0.16
5. Mza.	5,437	4.11	4,794	88.17	375	6.90	131	2.41	60	1.10	51	0.94	21	0.39	5	0.09
6. E. Rios	3,204	2.42	2,933	91.54	144	4.49	62	1.94	40	1.25	16	0.50	4	0.12	5	0.16
7. Misiones	2,666	2.01	2,481	93.06	105	3.94	33	1.24	26	0.98	12	0.45	9	0.34	--	--
8. Tucuman	2,248	1.70	1,970	87.63	142	6.32	54	2.40	34	1.51	17	0.76	10	0.44	21	0.93
9. Chaco	2,242	1.69	2,052	91.84	109	4.86	37	1.65	21	0.94	6	0.27	10	0.45	--	--
10. San Juan	1,668	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)
11. Salta	1,398	1.06	1,218	87.12	111	7.94	36	2.57	13	0.93	7	0.50	10	0.72	3	0.21
12. Corrientes	1,386	1.05	1,285	92.71	61	4.40	15	1.08	9	0.65	6	0.43	6	0.43	4	0.29
13. La Pampa	1,185	0.90	1,137	95.87	31	2.61	8	0.67	5	0.42	5	0.42	--	--	--	--
14. Ego. Estero	1,106	0.84	1,005	90.87	67	6.06	18	1.63	6	1.54	6	0.54	4	0.36	--	--
15. Rio Negro	1,058	0.83	952	89.70	78	7.10	41	3.73	14	1.28	8	0.73	5	0.46	--	--
16. San Luis	917	0.69	869	94.77	31	3.38	4	0.44	5	0.55	4	0.44	4	0.44	--	--
17. Formosa	795	0.60	747	93.96	33	4.15	8	1.01	4	0.50	3	0.38	--	--	--	--
18. Chubut	680	0.51	563	82.79	44	6.47	31	4.56	15	2.21	14	2.06	13	1.91	--	--
19. Jujuy	566	0.43	509	89.93	33	5.83	10	1.77	6	1.06	3	0.53	5	0.88	--	--
20. Catamarca	527	0.40	493	93.55	26	4.93	3	0.57	5	0.95	--	--	--	--	--	--
21. La Rioja	407	0.31	378	92.87	22	5.41	3	0.74	4	0.98	--	--	--	--	--	--
22. Neuquen	386	0.29	342	88.60	26	6.74	10	2.59	3	0.78	5	1.30	--	--	--	--
23. Sta. Cruz	211	0.16	193	91.84	6	2.84	7	3.32	--	--	--	--	--	--	--	--
24. T. del Fuero	57	0.04	42	73.68	5	8.79	6	10.53	--	--	--	--	--	--	--	--
TOTAL	132,444	100	113,102	85.46	10,329	7.80	4,111	3.11	2,187	1.65	1,217	0.92	773	0.58	323	0.24

Source: World Bank Report No. 1977a-AR, Argentina, Structural Changes in the Industrial Sector, vol. II, 30 March 1979.

Special facilities were offered to priority areas in addition to specific industrial branches, while enterprises located in "Greater Buenos Aires" were excluded from promotional treatment.

A revision of the promotional legislation was made in 1973 modifying both the objective and the mechanisms used. The revised law was mainly concerned with regional decentralization. Within this context, the establishment of new enterprises within the Federal District of Buenos Aires was prohibited and no benefits were to be given to new enterprises located within a 60 km radius from the capital.

The present Government promulgated a new law in 1977 which maintains previous measures favouring decentralization, but it gives discretionary authority to the Government for granting exceptions. Enterprises approved are no longer guaranteed access to concessionary credit facilities at the National Development Bank (BANADE). The law permits accelerated depreciation for fixed assets in addition to exonerations and deferrals on taxes, the latter having to be indexed. The Secretariat of Finance must include the total of the fiscal incentives which will be provided to enterprises in the form of exonerations from taxes, tax deferrals and accelerated depreciation allowances in the annual budget as an "expenditure".

Role of direct foreign investment

Over the years, there has been considerable debate over the role of foreign firms in the industrialization process. It is recognized, on the one hand, that foreign participation is needed for transfer of technology and capital (also needed for strengthening the balance of payments position), but on the other, there is more or less concern depending on the local point of view, over the predominance of foreign firms in certain sectors. A consensus exists that public utilities (water, railroads, telecommunications, electricity, gas) and certain "basic" or resource industries (iron ore, steel, aluminium, oil, petrochemicals, fertilizers) should be state-owned. There is also a consensus that the field of manufacturing should be primarily the preserve of the national

private sector. But from here on, views differ on how to help the national private sector, or indeed, even the state-owned basic industries, reach higher levels of development with or without foreign assistance. In contrast to the previous Government's emphasis on heavier participation by the State and the dilution of foreign participation, the present Government has opted in favour of less participation by the State in the private sector and wider foreign private participation in order to speed up the process of technological development.

Available information shows that foreign firms are strongest in the manufacturing sector. Their share of industrial production (value added) increased from 18 per cent in 1955 to 30.0 per cent (estimated) in 1978. This is explained by the fact that their average annual rate of growth was twice that of national firms, and this by the fact that they are located in the more dynamic industries where productivity is higher - chemicals, electrical machinery, electronics, rubber. They accounted for about 11 per cent of industrial employment. Although their number among the 100 largest firms increased from 36 to 71 between 1957 and 1971, this had fallen to 62 by 1977. Among the firms with 500 or more workers, foreign firms were in the majority by a ratio of 4.3:1 in 1963. But in petroleum and steel, the State's own firms, YPF and SOMISA dominate the fields. For plants of 500 or more employees, gross income was 60 per cent to 130 per cent higher among foreign firms, and average wages and salaries were 9 per cent to 20 per cent higher. In the field of exports, foreign firms accounted for 42 per cent of manufactured exports (excluding the packing plants in 1973)^{1/} (Table 11).

The policy on foreign investment followed by the Government since the first foreign investment law of 1958 has been flexible. Between 1963 and 1966, the repatriations of capital were restricted. In 1970-71, limitations were put on the extent of credit which the local banking system could offer to foreign enterprises, and in 1973-74, limits were placed on the repatriation of profits and the repatriation of capital. The Registry of Foreign Investment was introduced in 1974; in this roster firms were classified according to the structure of their capital.

1/ See Angel Monti, Análisis Interpretativo del Desarrollo Industrial Argentino, mimeographed working paper prepared for ECLA, September 1978.

According to the Registry of Foreign Investments, foreign investments were valued at US \$4,584 million and consisted of 1,700 investors and 1,460 enterprises in mid-1976. Following the approval of the new law on Foreign Investments (August 1976), which was designed to fit in with the new policy of "opening" the economy to international trade and finance, foreign investment returned in force. Between August 1976, and February 1978, US \$280 million were authorized with another US \$120 million in projects under review. Taken all together, foreign investment was approaching the US \$5,000 million early in 1978. Of this total amount, US \$2,000 million or 40 per cent corresponded to the United States of America, with the balance being divided among Switzerland (10 per cent), France (9 per cent), United Kingdom (9 per cent), Western Germany (7 per cent). By sectors, manufacturing occupied about two-thirds of the total up until 1976, and 55 per cent of the amount authorized subsequent to that date. Foreign investment was running its attention to other sectors such as petroleum and gas, fishing, and finance.

The new law provides foreign investors with complete equality with Argentines. The law permits investment in all sectors of the economy in the form of foreign currency, capital goods, credit capitalizations, know-how and the re-investment of profits. Foreign corporations can enter into loan and licence agreements with Argentine affiliates, and local companies with foreign capital have full access to local credit. Investors who invest less than US \$5 million are exempt from registering (with some exceptions), but registered investors have the right to remit the full amount of their profits (remittances in excess of 12 per cent p.a. of registered foreign capital are subject to a moderate tax) and repatriate their capital, even if the foreign exchange controls should be in force at the time.

Exports of manufactured goods

Industrial exports show a rising trend for the decade between 1965 and 1975 at a rate in excess of 25.0 per cent averaged annually. This brought the share of industrial exports in total exports from 6.2 per cent

in 1965 to 24.1 per cent in 1975. The crisis of 1975-76 resulted in the scaling down of industrial production including exports, and the share of the latter fell to 21.1 per cent in 1976, 18.0 per cent in 1977, and 17.3 per cent in 1978 (Table 12).

Among the non-traditional exports during the last ten years, the greatest growth was achieved by the machinery and transport equipment branch which increased its share from 16.2 per cent in 1965-66 to 39.7 per cent in 1975-76. Among the traditional exports, food, beverages and tobacco's share in total manufactured exports declined considerably between the same periods' from 30.5 per cent in 1965-66 to 14.4 per cent in 1974-76 (Table 13).

The emerging structure of manufactured exports can be classified into the following groups:

- (a) manufactures with a domestic resource base giving Argentina comparative advantage on world markets, such as agro-based manufactures including those which are essentially export-oriented, e.g. essential oils, as well as those which originally catered for the domestic market only: wine, dairy products, canned fruits and vegetables, leather and leather products, etc. Another product group falling in this category and which is only of marginal importance is the petrochemical industry which operates mainly but not exclusively with local raw materials,
- (b) engineering products of advanced technology with substantial skilled labour requirements and little scale economies. Local purchasing power has encouraged the development of these industries for the national market which absorbed most of the output initially. Present export lines which fit into this category are office machinery, household appliances such as air-conditioners and heating units, agricultural equipment, machine tools and food processing equipment;
- (c) products requiring higher technology and engineering skills such as the production of seamless steel tubes. Recently there has been an increased export of complete plants on a turn-key basis involving basic and detailed engineering design, equipment, construction and start-up assistance.

Table 11. Participation of foreign and national enterprises in the manufacturing industry

		Enterprises		
		Foreign	National	Total
1. Participation in the production	1955	18.4	81.6	100.0
	1963	24.0	76.0	100.0
	1970	28.2	71.8	100.0
	1978 ^{a/}	30.0		
2. Annual production growth rate	1955/73	8.8	4.3	5.3
	1973/78	<u>b/</u>		
3. Participation in employment	1955	10.9	89.1	100.0
	1963	11.7	88.3	100.0
	1970	10.8	89.2	100.0
	1978	10.8		
4. Annual employment growth rate	1955/73	0.94	1.19	1.15
5. Medium size				
a. Production or sales				
. All establishments	1963	54.0	0.8	1.0
. Establishments of more than 500 workers	1963	380.0	89.4	170.0
	1978	<u>c/</u>		
. Establishments of more than 5 workers	1967	20.3	0.7	1.0
. All corporations	1968	14.1	0.7	1.0
b. Occupation				
. All establishments	1963	235.5	8.2	9.2
. Establishments of more than 500 workers	1963	1,392.1	954.6	1,075.8
. Establishments of more than 5 workers	1967	464.2	36.0	41.5
6. Productivity in terms of workers employed (value added)				
a. All establishments	1963	0.83	0.35	0.40
b. Establishments of more than 500 workers	1963	0.77	0.50 ^{d/}	0.60
c. Establishments of more than 5 workers	1967	1.8	0.7	1.0
d. Annual productivity growth rate	1955/73	7.7	3.0	4.0
	1973/78	<u>a/</u>		

Source: Angel Monti, *Análisis Interpretativo del Desarrollo Industrial Argentino*, mimeographed working paper prepared for ECLA, September 1978.

a/ Forecasted.

b/ About twice the national ones.

c/ Larger proportion than in 1963.

d/ Due largely to railroad manufactures and sugar machines.

e/ Rate less or equal to that of 1955/73.

Table 12. Composition of exports, 1965-1978

	1965	1970	1971	1972	1973	1974	1975	1976	1977 ^{1/}	1978 ^{2/}
Agricultural exports	93.2	83.3	80.9	80.7	79.9	76.4	75.4	78.2	81.3	81.7
Cereals	38.6	28.8	30.8	17.5	26.5	34.1	36.0	30.0	27.9	22.4
Oils and fats	10.6	7.9	7.6	4.5	7.1	6.6	5.8	7.1	9.9	9.9
Sugar	0.5	0.7	0.8	1.2	2.8	7.5	3.8	2.1	2.9	1.8
Fruits	2.5	2.6	2.9	3.0	1.9	2.6	3.8	3.2	2.8	3.2
Meat	19.8	21.1	23.9	35.6	24.2	11.3	9.8	13.4	11.9	13.9
Wool	7.5	4.8	3.4	3.6	4.7	2.0	3.2	2.7	3.6	4.4
Hides and skins	3.4	5.3	4.0	6.2	3.7	2.5	2.4	3.9	3.9	4.1
Other agriculture exports	10.3	12.1	7.5	9.1	9.3	9.8	10.6	15.8	18.4	22.0
Industrial exports	6.2	16.3	18.6	19.0	20.0	23.3	24.1	21.1	18.0	17.3
Fuels and lubricants	0.6	0.4	0.5	0.3	0.2	0.3	0.5	0.7	0.7	1.0
Total Merchandise Exports	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: World Bank Report No. 2208-AR, Economic Memorandum on Argentina, 26 November 1978.

^{1/} Preliminary.

^{2/} Forecasted.

Table 13. Exports of manufactured products, 1960-1975
(value of exports in millions of US dollars)

	1965	1966	1970	1971	1972	1973	1974	1975	1976	Structure of Exports		Growth of Exports	
										1965-66	1974-76	1965-70	1970-76
Food, Beverage, Tobacco	24.7	47.1	93.1	106.4	93.9	150.8	189.4	94.3	134.1	30.5	14.4	21.0	10.2
Textiles and Wearing Apparel	8.9	9.8	17.1	16.3	27.3	78.4	72.4	21.7	44.0	7.9	4.3	14.0	20.8
Textile Products	8.7	9.6	16.8	15.3	24.2	57.2	42.9	16.3	39.0				
Shoes, hats, etc.	0.2	0.2	0.3	1.2	3.3	21.2	29.5	5.4	5.0				
Wood and Paper Products	9.8	11.2	16.9	17.0	21.3	38.9	61.4	28.1	35.2	8.9	4.1	11.3	15.1
Of which Paper and Pulp	0.4	0.2	2.1	3.2	4.7	14.8	38.8	5.0	...				
Books and Graphics	9.3	10.6	14.7	13.7	16.7	23.9	22.2	22.9	...				
Leather and Leather Products	3.3	9.4	48.4	42.4	99.3	128.7	128.9	81.8	170.0	3.3	12.3	69.0	28.6
Of which Skin and Tan Leather	3.1	8.6	33.2	36.3	89.9	97.6	87.4	61.9	...				
Chemicals and Pharmaceuticals	21.6	22.3	38.6	39.4	31.8	64.8	91.1	89.0	109.0	18.7	9.5	12.3	23.1
Plastics and Rubber Products	1.9	3.3	10.7	8.9	11.8	20.1	31.6	10.0	8.0	2.3	1.7	61.3	-6.0
Plastics	1.6	2.6	2.9	3.4	5.0	8.1	6.8	4.3	...				
Rubber Products	0.3	0.9	7.8	5.3	5.8	12.0	26.8	5.7	...				
Nonmetallic Minerals	0.4	0.3	2.3	2.7	3.8	9.1	12.9	5.7	11.0	0.4	1.0	41.9	26.7
Of which Glass	0.2	0.2	1.6	2.0	3.0	6.4	9.6	3.2	...				
Metal Products	9.3	11.9	38.2	46.1	53.2	124.4	177.8	61.2	100.0	9.0	11.1	5.0	21.6
Of which Iron and Steel	9.3	11.9	38.2	39.6	44.9	124.2	161.7	48.9	...				
Machinery and Transport	16.0	22.0	66.2	82.4	117.3	232.8	219.9	396.5	443.0	16.2	29.7	22.9	44.4
Machinery	14.7	19.8	54.3	63.4	82.3	147.9	207.4	221.4	213.0				
Transport Equipment	1.3	2.2	11.7	19.0	35.2	104.9	161.5	175.1	230.0				
Other Manufactured Exports	0.3	0.2	3.4	4.2	5.1	11.9	14.3	11.5	18.2	0.6	1.3	46.9	39.9
Total Manufactured Exports ^{a/}	24.6	138.8	336.9	366.2	487.6	889.9	1151.3	799.9	1093.5	100.0	100.0	28.3	27.3
International Price Index of Industrial Goods	87.2	89.2	100.0	106.3	113.4	136.8	167.6	189.3	192.2				
Manufactured Exports in 1970 Prices	109.9	134.4	336.9	344.6	422.3	650.3	686.9	422.6	368.9			23.1	9.1

Source: World Bank Report No. 1521 b-AR, *Argentina: Industrial Credit Projects - Banco Nacional de Desarrollo*, 25 May 1977.

a/ This manufactured exports follows ISIC Classification.

The principal markets for Argentine goods emanating from the agro-industrial sector are the developed countries while the neighbouring LAFTA countries are the principal buyers for the other exports, mainly metal and engineering products. Table 14 shows the geographical direction of manufactured exports as well as the increasing relative importance of the non-traditional, i.e. non-agro-based manufacturing exports. The share of agro-based industries in total manufactured exports has dropped from 67.3 per cent in 1969 to 56.9 per cent in 1976. Out of these 57 per cent represented by agro-based industries only 11 per cent was exported to LAFTA countries and the remainder, i.e. 46 per cent was directed to other markets, notably the EEC market with a 24.7 per cent share. With non-traditional manufactures the situation was different in that exports were almost equally distributed between the LAFTA countries, 23 per cent, and other markets, 20 per cent, the aggregate share of non-traditional manufactures representing 43 per cent in total exports of manufactured goods.

Structure of imports

Intermediate goods have represented a fairly constant percentage of manufacturing value added during the past two decades, although they have had their ups and downs in accordance with the level of economic activity. Thus the ratio of imported intermediate goods to manufacturing value-added fell from 18.76 per cent in 1960 to 13.20 per cent in 1965, and rose back up to 17.29 per cent in 1970. It then remained within the range of 14 per cent and 17 per cent, except for the sharp decline registered in the crisis year of 1976, a year of critical shortage of foreign exchange. Fuels and lubricants showed a ratio of 3.61 per cent of manufacturing value added in 1977, double that of the year 1970. Capital goods represented 28.5 per cent of merchandise imports in 1977, up from 21.5 per cent in 1970.^{1/} Seen in relation to Gross Fixed Investment, the figure jumped to 11.11 per cent in 1977, with the recovery from the preceding year's recession, when it was 4.78 per cent (Table 15).

^{1/} In World Bank Report No. 2208-AR, Economic Memorandum on Argentina, 26 November 1978, Table 3.4, p. 64.

Industrial employment

Employment in the manufacturing sector over the past quarter of a century has grown at about the same rate as the population growth rate. Employment grew from 1,414,000 in 1950 to 1,946,000 in 1974, the year prior to the onset of the crisis. During this period, total industrial employment grew at an average annual rate of 1.31 per cent in comparison with the population growth rate of 1.4 per cent. Traditionally, the unemployment rate has been comparatively low in Argentina. It has averaged between 2 per cent and 4 per cent nationally. During cyclical downturns, these rates have increased, of course. And they are as a rule, higher in the provinces.

Employment in the traditional industries has increased at a much slower rate compared with the more dynamic industries. Over the period 1950-1974, employment in the former grew at 0.73 per cent annually compared with a rate of 2.5 per cent among the latter (Table 16). It is well known, of course, that industry cannot be expected to absorb all new entrants to the labour force, but that its importance lies in the linkage effects forward and backward - in commerce and services on the one hand, and in serving as an outlet for primary materials on the other.

Table 14. Geographical composition of exports of manufactured products

	1 9 6 9				1 9 7 6			
	Total (US\$ millions)	Shares (% of total)			Total (US\$ millions)	Shares (% of total)		
		Total	Agro- based	Other Manufactures		Total	Agro- based	Other Manufactures
<u>Total</u>	<u>507.0</u>	<u>100.0</u>	<u>67.3</u>	<u>32.7</u>	<u>1,839.6</u>	<u>100.0</u>	<u>56.9</u>	<u>43.1</u>
<u>LAFTA</u>	<u>164.8</u>	<u>32.5</u>	<u>10.7</u>	<u>21.8</u>	<u>625.6</u>	<u>34.0</u>	<u>10.8</u>	<u>23.2</u>
Brazil	24.7	6.8	2.4	4.4	179.6	9.7	3.7	6.0
Chile	42.5	8.3	3.4	4.9	112.4	6.1	1.7	4.4
Paraguay, Uruguay, Bolivia	49.1	9.7	2.2	7.5	168.0	9.1	2.2	6.9
<u>Others</u>	<u>342.2</u>	<u>67.5</u>	<u>56.6</u>	<u>10.9</u>	<u>1,214.0</u>	<u>66.0</u>	<u>46.1</u>	<u>19.9</u>
North America	61.8	12.1	6.9	5.2	190.8	11.0	6.6	4.4
EEC	224.0	44.1	40.7	3.4	521.0	28.5	24.7	3.8
Socialist countries	17.9	3.5	3.2	0.3	218.5	11.9	4.1	7.8
Japan	7.4	1.5	1.2	0.3	69.0	3.8	3.2	0.6
Rest of the world	30.9	6.2	4.5	1.7	197.9	10.8	7.5	3.3

Source: World Bank Report No. 1977a-AR, Argentina. Structural Changes in the Industrial Sector, vol. I, 30 March 1979.

Table 15. Structure of imports in relation to consumption, manufacturing value added, gross fixed investment, and gross domestic product, 1960-1977

(in millions of \$a, and percentages)

	Imports				Import ratios				
	Consumer goods	Intermediate goods	Fuels and lubricants	Capital goods	Consumer goods to consumption	Intermediate goods to manufacturing value-added	Fuels & Lubricants to manufacturing value-added	Capital goods to gross fixed investment	Import total to GDP
1960	19	540	129	349	0.24	18.76	4.48	16.78	10.24
1965	78	1,492	194	262	0.27	13.20	1.72	4.25	5.58
1970	310	4,424	299	1,383	0.41	17.29	1.17	7.30	6.77
1971	322	5,773	560	1,924	0.30	15.72	1.53	7.55	6.47
1972	681	10,622	575	3,740	0.39	16.45	0.89	8.56	7.11
1973	627	15,113	1,572	3,556	0.23	14.33	1.49	5.04	5.72
1974	1,192	22,622	4,679	3,843	0.34	17.07	3.53	3.84	6.98
1975	2,817	58,424	10,989	11,992	0.28	13.82	2.60	3.52	6.30
1976	9,805	289,483	79,459	75,282	0.17	11.39	3.13	4.78	5.99
1977 ^{1/}	75,209	945,549	249,446	442,900	0.47	13.67	3.61	11.11	8.26

Source: World Bank Report No. 2208-AR, Economic Memorandum on Argentina, 25 November 1978.

^{1/} Preliminary.

Table 16. Industrial employment, 1950-1976

(in thousands)

INDUSTRY	1950	1955	1960	1965	1970	1973	1974 ^{a/}	1975 ^{a/}	1976 ^{a/}
"Traditional" Industries									
Food, beverage, tobacco	301.4	307.7	294.1	279.4	329.5	352.1			
Textiles, clothing, leather	304.7	277.2	251.8	263.5	265.6	300.4			
Wood products	85.2	67.9	63.3	64.2	82.2	81.0			
Paper, printing, publishing	59.8	62.6	64.8	76.9	103.7	113.8			
Non-metallic minerals	86.5	76.2	74.0	70.7	66.8	85.6			
Other Industries (mainly handicraft)	173.0	175.2	174.3	181.3	222.5	261.1			
Subtotal	<u>1,010.6</u>	<u>966.8</u>	<u>922.3</u>	<u>936.0</u>	<u>1,090.3</u>	<u>1,194.0</u>	<u>1,226.0</u>	<u>1,243.8</u>	<u>1,203.0</u>
(in % of total)	(71.4)	(66.2)	(61.2)	(60.6)	(63.5)	(62.6)			
"Growth" Industries									
Chemicals	74.6	90.6	111.3	117.7	123.6	122.9			
Basic metals	135.0	157.0	151.6	164.4	179.8	181.9			
Machinery & equipment	195.0	245.1	320.9	325.9	323.1	399.0			
Subtotal	<u>404.6</u>	<u>492.7</u>	<u>583.8</u>	<u>608.0</u>	<u>626.5</u>	<u>703.8</u>	<u>720.0</u>	<u>730.5</u>	<u>707.0</u>
(in % of total)	(28.6)	(33.8)	(38.8)	(39.4)	(36.5)	(37.4)			
Total Industrial Employment	<u>1,415.2</u>	<u>1,459.5</u>	<u>1,506.1</u>	<u>1,544.0</u>	<u>1,716.8</u>	<u>1,907.8</u>	<u>1,946.0</u>	<u>1,946.0</u>	<u>1,910.0</u>

Source: World Bank Report No. 1977a-AR, Argentina - Structural Changes in the Industrial Sector, vol. I, 30 March 1979.^{a/} Estimates based on employment indices of blue-collar workers of all industries and white-collar workers in selected industries.

Chapter III

THE CURRENT SITUATION

The crisis of 1975-76

The Argentine Government faced three major and inter-related crises in the spring of 1976: a condition of hyper-inflation which showed signs of getting completely out of hand; a deepening economic recession; and imminent default on its foreign payments. In March 1976, the wholesale price index increased by a record monthly rate of 54 per cent. Price increases in the first quarter implied an annual inflation rate of 3,000 per cent. The economic expansion observed until early 1975 was supported mainly by the increase in consumption, by investments in construction, and in the growth of exports. All of these fell off throughout the rest of 1975 and early 1976, contributing to declines in G.D.P. of 4.8 per cent and 4.4 per cent, respectively. Gross fixed investment declined by 15.4 per cent in the second half of 1975 and 16.7 per cent in the first quarter of 1976. Consumption declined by 2.2 per cent in the second half of 1975 and by 3.0 per cent in the first quarter of 1976. In this situation, international reserves were disposable only to the extent of US\$ 23 million.

The origins of the crisis, in the Government's view, are found in a complex set of political-economic policies pursued in the last thirty years save for short periods. These may be broadly summarized as follows:

- (a) a growing state intervention in the economy which had the effect, on the one hand, of strangling the activities of the private sector, and on the other, of doing its tasks at a high cost. This resulted in increased public expenditure which, not being met by a comparable increase in resources, opened wide gaps in the Budget and thus gave rise to huge deficits. This deficit, financed mainly through monetary issues, became the major cause of the persistent inflation which culminated in the situation of March 1976.

- (b) An exaggerated concept of self-sufficiency, based on the policy of import substitution and enforced since the beginning of the postwar period, sealed Argentina off from major economic and technological developments; and by means of a system of high tariffs served to over-protect the domestic productive system from outside influences and competition. The protection afforded to the (relatively) high cost manufacturing system joined with an over-valued exchange rate blocked Argentina's access into the world's markets, and they impeded the inflow of capital and technology which could help Argentina to develop and modernize its economy. It also priced Argentina's agricultural and industrial products out of the world's markets. Moreover, the system of price controls and overprotection gave rise to inter-sectoral resentments with the Government vainly trying to intervene and mediate. ^{1/}

The new economic programme as it relates to industry

The economic programme of the present Government consists of a series of policies and measures with the basic aim of: (a) redressing the previously closed-economy policy through a process of freeing the economy, both in the domestic and external field, as an instrument to achieve economic and technological development and (b) changing the role of the public sector through a reduction of expenditure and direct state intervention and encouragement of private enterprise to be the main driving force of the economy.

^{1/} See: Argentine Ministry of Economy, Argentine Economic Development, 1976-1979.

Tariffs

The basic concept behind the new policy on tariff reductions is to open the Argentine economy to the competition and stimulation of world trade. This is expected to permit manufacturers and consumers to buy what is most suitable for them in terms of quality, volume and price on the world market, and with a realistic exchange rate to facilitate the export of national products. The tariff reduction programme was designed for quarterly reductions beginning early in 1979 and ending in 1984. By that time, an average tariff of 15 per cent is expected to prevail. Additionally, to stimulate imports of capital goods to increase productivity of national industry, for one year only the 10 per cent tariff on imported products not produced locally was to be to zero. The purchase of capital goods were also given credit and tax benefits support. Imports of inputs and raw materials later incorporated into exports would also be free of import taxes.

Industrial promotion

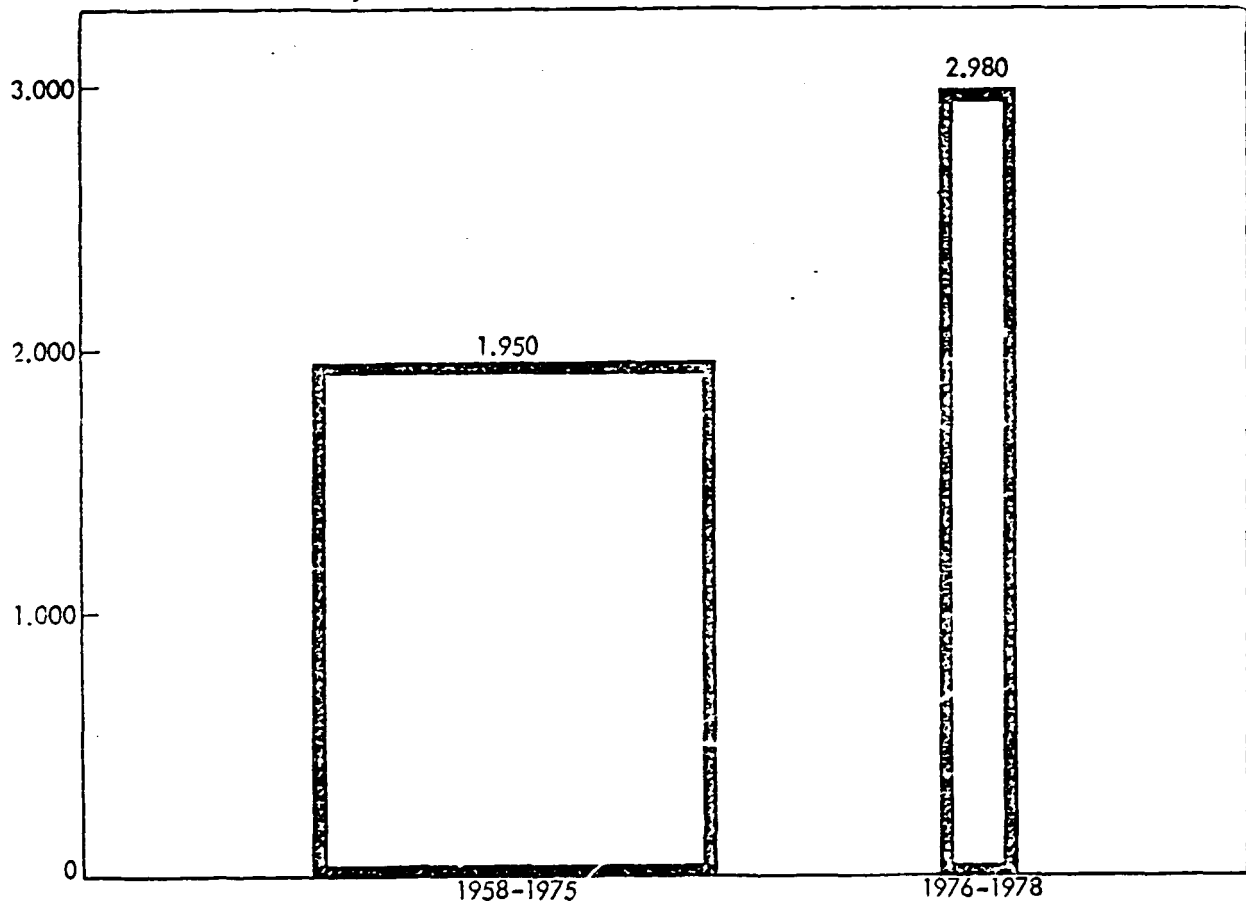
Among the main measures taken have been: (a) tax exemption to stimulate investment in capital goods, (b) opening access to international sources of medium and long term credit, (c) simplifying bureaucratic procedures for approving industrial projects, and (d) reorganizing and re-capitalizing the National Development Bank which is an important source of industrial development finance. Between 1976 and 1978 almost US \$3 billion in industrial investment were authorized as against a total of US \$1,950 million during the period 1958-1975 (Figure 1).

Government expenditures and other economic and financial measures

In the first quarter of 1976, the National Budget deficit reached 13.5 per cent of GDP, highest in the nation's history. Through a sharp cutback in expenditure, this deficit had been reduced to 6.3 per cent

Figure 1. Trend of approved investments in promotional industrial projects

Million of US dollars



Source: Argentine Ministry of Economy, Argentine Economic Development, 1976-1979.

by year-end 1976, to 3 per cent in 1977, and to 2 per cent in 1978. In 1978 (for the first time in 20 years) the creation of money by the Central Bank was reduced to zero. This was also the target for 1979. In short, the Government aimed for a balanced budget. A ceiling was established for the public debt: at 5 per cent of GDP for 1978 and 4 per cent for 1979. A strong effort was made to improve the tax collection system. Whereas revenues in the first quarter of 1976 covered only 20 per cent of total expenditures, this figure was raised to 66 per cent in 1977 and to over 70 per cent in 1978. The reduction in Treasury expenditures was achieved by sharply reducing its transfer to the provinces and to state enterprises. The Government sharply reduced the number of its employees: this went down from 158,000 in April 1976 to 115,000 in 1978. A number of companies which had been intervened or managed by the State were returned to private hands. The new orientation aimed at strengthening the State's finances and administration by divesting it of functions better done by the private sector; instead the objective was to limit its sphere of activity to "the administration of justice, providing for defense and security, issuing rules to govern human co-existence, and providing for health services, education, social security, and essential public services".

In accordance with the concept of 'subsidiariedad', the Government has aimed at reducing its share of total investment and to have a greater share of investment by the private sector. In 1976, public investment accounted for 11.4 per cent of GDP. This figure rose in 1977 to 12.9 per cent, but it was reduced to 11.3 per cent in 1978. For the year 1979, public investment is expected to be slightly lower in real terms. The battle against inflation included the concept that it is better to have a price system that truly reflects costs than to have to give way constantly to demand-pull and cost-push forces fed by budget deficits. Rent control was permitted to phase out in accordance with rental contract dates. Rent control was seen as the major cause for the stagnation of the home building industry and the shortage of housing. The fixed charges of state-owned utilities were also freed so that they could cover their costs instead of disguising the losses with subsidies. The Government discontinued collective bargaining during 1976. It established a new wages policy in March of 1977, in which it authorized the private sector to grant wages increases in accordance with new guidelines based on increases in productivity.

It is worth noting the relationship between the rise in the money supply and the change in the level of the wholesale price index. The increase in the supply of money approached 400 per cent in the spring of 1976 and reached a peak in mid-year. Similarly the increase in the Wholesale Price Index hit over 900 per cent by mid-year 1976, and as the supply of money came down so did the Index. However, it should be noted that inflation remains a serious problem, since it has been averaging over 100 per cent annually since 1977, despite the virtual cutting off of the money supply.

The Government was able to relieve the immediacy of balance of payments problems by obtaining a loan from the stand-by facilities of the International Monetary Fund. This amounted to US \$300 million. Foreign creditors, convinced that the I.M.F. and the Government were agreed on the measures for combating the crisis, acceded to a re-scheduling of Argentina's short-term obligations which had fallen due.

Recent progress

Gross domestic product

According to provisional figures issued by the Central Bank, there was a growth of 8.5 per cent in GDP in 1979 at constant 1960 peso prices, the highest rate of growth for the past 10 years. Although doubts have been expressed on the reliability of 1960 peso prices, this official figure is the best most recent guide to the overall trend in Argentina's economic growth. ^{1/}

Manufacturing production

Even though manufacturing showed an overall increase in 1977 of 3.8 per cent, some of the sub-sectors such as food processing, wood products,

^{1/} The Economist Intelligence Unit Ltd., 1980 Economic Review of Argentina, London, 1980, p. 8.

textiles and clothing suffered declines of 11.5 per cent, 6.0 per cent, 3.5 per cent. But the recovery of 1977, still incipient, ran into a stone wall of rising interest rates which impeded the access to working capital. Manufacturing production fell again in 1978 by 9 per cent. The rate of utilization in the sector was on the order of 70 per cent for the year. For the machinery and transport industry, it was down to 51 per cent, but for paper and paper products, petroleum derivatives, and aluminium, it averaged just over 80 per cent. Growth in the industrial sector in 1979 was an impressive 11 per cent compared to 1978, a recession year. Compared with 1977, however, the growth rate of the sector in 1979 was 2.2 per cent. ^{1/}

Employment and wages

Employment during the years of the crisis remained high despite the fluctuations of economic output. Unemployment, however, rose from 3.5 per cent in 1975 to 5.1 per cent in April 1976, then fell to 2.5 per cent in October 1977, as the recovery got under way. It remained at that level well into 1978, even as industrial production turned down again. The success in keeping the unemployment rate down was due in part to the retention policies traditional in Argentine, and to the incomes policy. The Government retained its own work force intact and it let it be known that it would do so until the recuperation of economic activity made it possible to release workers for employment in the private sector. Unemployment rates in Argentine have been traditionally low. In 1979, in addition to a remarkably low unemployment there were signs that in some areas there was actually a shortage of suitable qualified labour.

The policy of negotiating wage increases on the basis of production and of productivity has been instituted. By the end of 1978, real salaries had grown by 9.6 per cent. Another related factor is that there are reasonable hopes that the rate of inflation in Argentina in 1980 will finally come down to a two digit figure. The Fundación de Investigaciones Latinoamericanas has produced an estimate for 1980 inflation of 91 per cent.

^{1/} The Economist Intelligence Unit Ltd., 1980 Economic Review of Argentina, London, 1980, p. 8.

Balance of payments

The balance on current account turned sharply negative in 1975, and reserves were virtually drained. The current balance showed a positive balance of US \$649 million in 1976 and was followed by a further improvement to US \$1,317 million in 1977. Just as the drop in exports contributed to the crisis in 1975, so its recovery in 1976 contributed to its improvement in 1976. Imports increased by 54 per cent in 1979 and exports by 23 per cent. Similar growth rates would throw the current account into deficit in 1980. By year-end 1979, however, the country's reserves had reached the sum of about US \$10 billion, a record figure.

Approved and Operational UNIDO Technical Assistance Projects
as at end August 1980

<u>Project number</u>	<u>Project title</u>
US/ARG/79/100	Argentine/Arab investors forum
DP/ARG/78/003	NOA Industrial, phase II, preparatory assistance
DP/ARG/78/004	Assistance to small and medium industries, Santa Fe
SI/ARG/79/802	Argentinian Iron and Steel Institute
SI/ARG/79/801	Assistance to petrochemical and fertilizer industry
DP/ARG/75/021	Petrochemical industry Bahia Blanca
RP/ARG/80/001	Foundry technology.



