The political economy of international trade policy in Argentina

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Introduction

This paper analyzes the domestic determinants of international trade policies in Argentina. Based on existing theories in the political economy of international trade, it presents a basic framework to interpret strategies and revealed preferences in the case under study, with a main focus on the 1989-2005 period.

The exposition is organized in three sections. Section 1 presents a stylized description of the evolution of international trade policy in Argentina over the period. The description focuses on: i) the extent and mechanisms of domestic market protection (including tariff and non-tariff barriers), ii) the nature and efficacy of export promotion policies and iii) the negotiation strategies displayed in multilateral and regional arenas. Section 2 synthetically presents theoretical arguments that account for the domestic determinants of international trade policy. The analysis distinguishes between structural, institutional, ideological and conjuncture factors. In this section we also analyze the Argentine case using these theoretical arguments. Section 3 concludes by offering an interpretation of Argentine trade strategies and revealed preferences in the light of the domestic factors analyzed.

1. Strategies and revealed preferences in foreign trade policy

Argentina's trade policy experienced significant changes over the last twenty years. They were part of a wider set of structural reforms that redefined the roles of public authorities and private agents in economic processes and outcomes. The resulting trade policy regime –including domestic market protection and export promotion activities—and foreign trade negotiation strategies differed significantly from those prevailing during the import substitution period. We provide a brief sketch of these changes and their precedents in the next section.

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a. Domestic market protection: trade policy towards imports

Argentina's trade policy started to change course in the mid 1970s. Tariff rates dropped from an average of 55% in 1976 to 29% in 1978 and several quantitative restrictions on imports were lifted. These changes and the parallel appreciation of the domestic currency resulted in a significant increase in imports, severely damaging the domestic manufacturing sector (Bouzas y Keifman, 1987). The commercial opening was partially reversed in the 1980s. A severe balance of payments crisis prompted the government to stop the drain of international reserves through quantitative restrictions and higher tariff rates, which reached an average of 40% in 1987. A system of import licenses worked in practice as a virtual prohibition on various imports.

Prompted by mounting pressure from multilateral financial institutions and new reformist goals, national authorities resumed attempts at trade liberalization, but only by the late 1980s and in a moderate way. Policy makers were convinced of the benefits of opening the domestic economy to international competition but, unlike their predecessors in the 1970s, chose to do so gradually. In October 1988 average tariff levels were lowered, price controls on some imports were replaced with specific duties and the reach of import licenses was reduced.

The authorities elected in 1989 deepened trade reform, since trade liberalization was consistent with the goal of reining in domestic prices in a context of hyperinflation. Drastic unilateral trade liberalization also signaled the new administration's commitment to deregulation and "market-friendly" policies. In just two years, officials in charge of the economy completed the liberalizing tasks initiated by the previous administration. Between 1989 and 1991 import licenses and quantitative restrictions on imports were progressively reduced up to their complete elimination, while custom procedures were significantly streamlined. Although tariff levels changed frequently during the period,[2] the declining trend in tariff average levels and dispersion was clear. In addition, specific duties were replaced with *ad valorem* tariffs. In contrast with the trade opening of the 1970s, tariff reductions were implemented abruptly, forcing import-competing sectors to adjust rapidly to a dramatically new competitive environment in a context of real appreciation of the local currency.

Preferential and multilateral agreements subscribed later in the decade restricted Argentina's policy discretion (Ablin and Lucángeli 2000) thus reinforcing the commitment to predominantly low tariffs

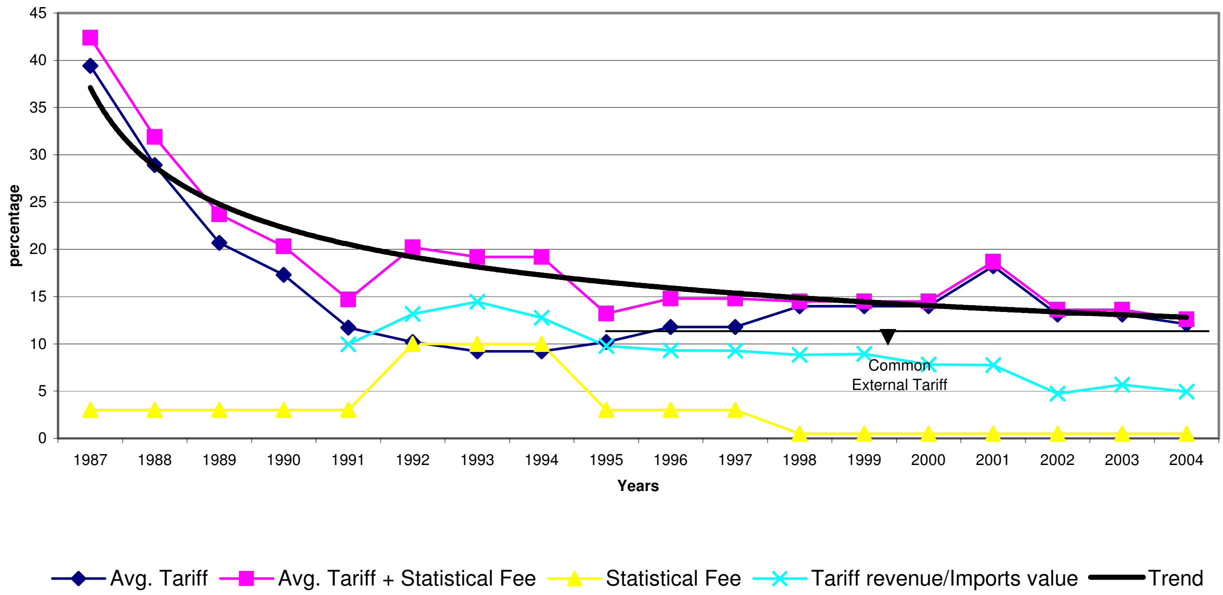
[2]. More than ten tariff reforms were implemented between October 1989 and November 1991. These reforms included even a short-lived uniform 22% tariff rate for almost all products (in place between January and April 1991). Not only tariff levels but also the underlying objectives of the tariff structure changed dramatically throughout the period.

adopted in the early 90s. The constitution of MERCOSUR freed intra-regional imports from tariff restrictions (excepting sugar and other products subject to anti-dumping duties) from 1994 on. In 1995, MERCOSUR countries committed to a Common External Tariff (CET) (although its efficacy was later compromised by numerous and frequent exceptions). Additionally, Argentina subscribed to the agreements of the Uruguay round of the GATT/WTO, consolidating tariffs at a level of 35% .[3]

Level and structure of tariff protection

Average tariffs (including the "statistical fee"[4]) decreased from 42.4% in 1987 to 14.7% in 1991. Tariffs remained at this level during the following years, with relatively short-lived increases in 1992-1994 and 2001. Tariffs have slightly declined since 2002 (See Figure 1).

Figure 1
Tariff Protection, 1987-2004



Source: authors´ calculation based on data from FIEL, Ministry of Economy and Production and Crespo Armengol (2002)

The liberalizing trend was first reversed in 1992 when the statistical fee was increased from 3% to 10%. The increase was in place for almost two years and was complemented by non-tariff barriers. The aim was to mitigate the effect of trade liberalization in a context of real appreciation of the local currency and rapid domestic demand growth, leading to a sharp increase in imports (in 1992 total imports were 3.5 times higher than in 1990). A second and short-lived reversal occurred in 2001, when Argentina unilaterally eliminated duties on computer, telecommunication and most capital goods imported from

[3]. The fixed exchange rate scheme (locally known as *Convertibilidad*) also constrained fiscal and monetary policies.
[4] A duty on imports imposed in 1961 to finance the collection and publication of statistical information on imports and exports by the National Customs Administration.

non-Mercosur countries and raised tariffs from 20% to 35% on several consumer goods.[5] In contrast with the previous episode, this one took place in a context of recession and falling imports.

Import protection, measured as the relationship between customs revenues (including statistical fees) and total imports, amounted to about 70% of average extra-Mercosur tariffs in the early 90s and neared 40% by 2004. This reduction is even more pronounced than extra-Mercosur tariff protection due to the liberalization of intra-regional trade and the increasing contribution of MERCOSUR as a source of Argentina's imports. This indicator highlights the contrasting effects of tariff policy reversals during the *Convertibility* years: while the 1992-1994 episode increased protection, that was not the case in 2001.

Intra-MERCOSUR tariff protection gradually diminished starting with the signing of the Asunción Treaty in 1991. This agreement set a program of gradual, linear and automatic tariff reductions that would have led to a tariff-free intra-regional trade by December 1994. At the Ouro Preto Summit in December 1994 member countries agreed to exclude sugar and automobiles from the reduction program and adopted a special regime for sensitive products, maintaining intra-regional protection until 1998 for Argentina and Brazil and until 1999 for Paraguay and Uruguay. Argentina included 200 tariff lines in the special regime (including steel, paper, textiles, footwear, tires and home appliances). Tariffs on these products, which represented 7% of total imports from regional partners, steadily decreased from an average of 21.9% in 1995 to 5.9% in 1998 (Crespo Armengol and Perez Constanzó, 1998).

We register a sharp reduction in both nominal and effective protection for most sectors between 1990 and 1995. Average levels for both indicators remained close to 1995 levels in 2002 (See the last line in table 1). However, there are some sectoral variations. Protection to sectors such as "Machinery" and "Electronics and telecommunications" was significantly reduced. For other sectors, it remained high or even increased.[6]

[5]. For most of 2001 a so-called "covergence factor" imposed an extra tariff rate of around 5% on all imports. Estimates of average tariff levels do not include this component.

[6] Such were the cases of automobiles (which benefited from a special regime) and textiles and footwear (which enjoyed specific minimum import duties with high *ad valorem* equivalents). Considering their structural international competitiveness, it is particularly surprising the increase in effective protection in the case of food and beverages.

Table 1: Nominal and Effective Protection Rates
(percentage)

Sector	NPR90	NPR95	NPR02	EPR90	EPR95	EPR02
Agriculture, livestock and fishing	12.5	8.6	7.3	11.8	8.4	7.9
Oil & coal extraction	15.9	0.0	0.0	15.8	-0.6	-2.0
Mining	20.0	5.8	5.9	20.2	5.0	6.2
Meat, fish, fruits, vegetables	14.6	11.2	11.8	14.0	21.6	33.2
Dairy products	13.8	18.0	17.2	11.8	18.0	17.5
Others food and tobacco products	18.3	18.6	17.8	18.5	21.2	23.2
Beverages	15.5	20.8	20.4	13.9	23.8	23.2
Textiles	25.3	19.6	20.5	28.5	21.8	27.9
Textiles products	27.0	23.4	28.7	29.8	30.2	38.4
Clothing, leather and footwear	26.5	22.6	28.8	29.8	27.2	45.4
Wood and furnitures	25.8	16.9	15.8	29.2	21.7	19.3
Paste, paper and publication	22.5	16.3	11.6	24.4	19.2	10.4
Basic chemicals products	23.2	12.6	12.4	25.7	17.4	17.6
Refined petroleum	14.6	1.4	0.4	10.0	3.9	1.4
Others chemical products	24.6	11.8	13.7	32.3	13.1	15.4
Rubber products	24.3	21.8	15.6	27.2	27.2	18.8
Plastic products	26.3	19.7	18.4	30.2	22.7	24.0
Non-metallic minerals products	22.5	14.9	10.8	24.1	16.1	12.3
Iron and steel	22.2	19.6	13.9	28.3	25.0	17.1
Non ferrous metals primary products	24.6	12.3	11.2	30.0	14.5	12.7
Smelting and metal products	25.8	17.1	15.7	30.1	17.4	16.4
Machinery	26.7	13.3	3.6	31.6	11.5	-4.3
Electric material and home appliances	26.6	19.4	19.6	31.3	21.7	28.8
Electronic and telecommunications	26.5	12.3	8.8	30.9	9.9	10.0
Automobiles	27.0	21.0	34.4	34.0	23.3	118.5
Autoparts and other vehicles	26.8	16.2	13.8	31.2	18.8	15.9
Other manufactures	24.6	20.9	19.6	26.4	24.4	23.6
Total	**18.4**	**12.9**	**13.1**	**20.3**	**13.9**	**15.3**

NPR: Nominal protection rate
EPR: Effective protection rate

Source: authors' calculation based on data partially published in Crespo Armengol et al (2004)

Nominal and effective protection for capital goods in 2002 was significantly lower than in 1990. However, trade policy towards these goods was highly volatile throughout the period, constituting an exception to the relative stable trend towards lower tariff protection (Berlinksi, 2004). [7]

Extent and intensity of non-tariff barriers

In spite of the liberalization policy adopted in the early 90s, tariff and non-tariff instruments were selectively used to protect designated sectors. These protectionist devices included tariff measures (variable tariffs, specific minimum import duties) trade relief measures (anti-dumping duties,

[7] Import tariffs on capital goods were reduced to 0% in early 1993, but domestic producers were compensated with a 15% tax reimbursement on local sales. Economic authorities expected to promote technological modernization through these measures. Yet, they also compromised negotiations with Brazil over a Common External Tariff, since Brazil protected domestic production of capital goods at the highest rate. In 1994, both countries agreed to temporarily exempt capital goods, computer and telecommunication products from the Common External Tariff and gradually converge towards a level of 14% for capital goods in 2001 and 16% for computer and telecommunications in 2006. In 1995 fiscal considerations led Argentine authorities to raise extra-Mercosur tariffs on capital goods to 10% and reduce compensation to local producers to the same percentage. By mid 1996, reimbursements to local producers were eliminated and tariffs on capital imports were increased again. These changes account for a significant portion of the increase in tariff levels recorded in 1995 and 1996 (see Figure 1). Yet another reversion took place three years later, when tariffs on capital, computer and

countervailing duties, and safeguard clauses), (automatic and non-automatic) import licenses, performance requirements and orderly market arrangement agreements negotiated between firms (with or without government approval; see Table 2). Although all these measures aimed to strengthen protection, they differed in their restrictiveness, sectoral coverage, compatibility with WTO rules and impact on intra-Mercosur trade:

- Except for automatic licenses (with relatively mild restrictive effects) all these measures were implemented to protect a few sectors: textiles, footwear, sugar, toys, steel, paper and automobiles.
- Some tools cover only one or a few sectors. Such is the case of variable tariffs (sugar), specific minimum import duties (textiles, footwear and toys) and performance requirements (automobiles).
- The two sectors with the highest diversity of additional protection measures are textiles and footwear, which enjoyed specific minimum import duties, safeguards, licenses and market ordering agreements.
- WTO commitments limited the use of non-tariff barriers such as specific minimum import duties, safeguards and anti-dumping.[8]
- MERCOSUR agreements also constrained the application of import licenses, specific minimum import duties and safeguards on imports from regional partners.
- Argentine authorities encouraged local firms to seek “voluntary agreements” to obtain additional protection from imports originated in Brazil. Unilateral measures were adopted only when this alternative route reached a dead end.
- Most of these measures have remained in place for a long time. Their “contingent” nature is highly debatable. This applies particularly to textiles, footwear, sugar and steel.

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communications goods produced outside MERCOSUR were cut down to zero (Argentina obtained a *waiver* from its MERCOSUR partners) and the compensation to local producers was restored.

[8]. Including the statistical fee.

Table 2: Non-tariff barriers in Argentina

Instrument	Type	Sectors	Period	MERCOSUR	Rest of the world
Automatic previous import licenses	Licenses	Textiles and footwear	Since 1996[9]	NO except for 1995-1997	YES
		Several	Since 1999	YES	YES
Non Automatic previous import licenses	Licenses	Paper, footwear, washing machines, toys	Since 1999 (footwear, paper)	NO	YES
			Since 2004 (washing machines)		
			Since 2005 (toys)		
Variable tariff	Tariff	Sugar	Since 1992	YES (with preference margins since 1999)	YES
Specific minimum import duties	Tariff	Textiles, footwear and toys	Since 1993 (textiles)	NO	YES
			1993-1997 (all footwear)		
			Since 2000 (non-sport footwear)		
			Since 1999 (toys)		
Anti-dumping duties	Trade relief measure	Mainly metal products (15), steel (12), chemicals (10), machinery and equipment (8) electric appliances(6)	1992-96 Since 1999 (steel)	YES	YES
Countervailing duties	Trade relief measure	Food products (peach conserves, gluten de trigo, olive oil)	Since 1996	NO	YES (against EU)
Safeguards	Trade relief measure	Paper (MERCOSUR safeguard)[10]	1992-1994 (paper)	YES	NO

[9]. Automatic licenses applied until 1999, to be then replaced by non-automatic licenses.
[10]. See note 13.

Instrument	Type	Sectors	Period	MERCOSUR	Rest of the world
		Footwear, motorcycles, TV sets and paper (GATT/WTO safeguard)	1997-2000 (footwear) 1992-1994 (paper)	NO	YES
			Since 2000 (sport footwear)	NO	YES
			2001-2004 (motorcycles, peach conserves)	NO	YES
			Since 2005 (TV sets)	YES[11]	NO
		Textiles (safeguard ATC)	Since 1999 (textiles)	YES (1999-2000)	YES
Market ordering agreements	Private sector agreement	Steel, petrochemical, footwear, home appliances, some textiles	1992-1994 Since 1999 (steel) 1999-2000 (footwear) Since 2004 (denim and refrigerators)	YES (exclusively with Brazil)	NO
Balanced trade requirements	Performance requirements	Automobiles	Since 1991	YES	YES
National content requirements	Performance requirements	Automobiles	Since 1991	YES	YES

Source: authors' elaboration on data from Ministry of Economy and Production, National Foreign Trade Commission and MERCOSUR Reports (BID/INTAL)

b. Trade policy towards exports

Policies towards exports changed frequently over the last two decades. Their reach, characteristics and efficacy fluctuated in response to general macro-economic conditions.

Export promotion mechanisms

Export promotion schemes[12] were reformed in the context of trade liberalization measures implemented in the early 1990s. They were applied with varying intensity over the decade and their

[11]. Originating in the Zona Franca de Manaos (Brazil)

volatility was particularly high in the case of fiscal instruments. Export promotion systems comprised four main segments: compensation of the anti-export bias, special reimbursements, financial incentives and trade-promotion.

The main instruments used to compensate for the anti-export bias of tariffs levied on imported inputs are duty-.free temporary imports and the draw back of paid import taxes. The first one is the most frequently used, since it entails lower financial costs for exporters (Table 3). Exporters also benefit from the reimbursement of the Value Added Tax paid over the production process, which takes the form of a tax credit. Fiscal considerations often lead the authorities to delay credit determinations, thus raising exporters´ financial costs (particularly damaging small firms). In Argentina the VAT rate is 21%. An Industrial Specialization Regime was in place between 1992 and 1996, offering preferential 2% tariffs on imports used to increase exports. The regime was suspended for fiscal reasons three years earlier than originally expected, thus barely having an impact on exports[13] (Sirlin, 1999).

Table 3: Usage rate of temporary admissions and draw back

Percentage of responses in two surveys

	Temporary admission	Draw back
Successful Pymex panel (1999)	56%	18%
Large industrial firms panel (2005)	55%	11%

Source: Authors' calculations based on data reported by Milesi, Yoguel y Moori Koenig (2001) and CEP's Big Industrial Firms Survey (2005)

Special reimbursements constitute another compensation mechanism. They were modified several times during the 1990s. Four rates were established in 1991 (3.3%, 6.7%, 8.3% and 10%) on the basis of estimates of the incidence of internal taxes on exported goods. In late 1992 the system was replaced with a so-called "mirror" system that set reimbursement rates equal to import tariff levels on a product-by-product basis. Thus, weighted average reimbursement levels increased from 3.3% to 6.3% (Berlinsky 2004). By the mid 1990s, fiscal constraints led to a reduction in the maximum reimbursement rate from

[12] Argentina started using export promotion mechanisms in the 1960s with the main purpose of spurring non-traditional exports. The use of these mechanisms declined with the trade reforms adopted in the mid-1970s, but they were restored in the mid-1980s. The 1989-90 crisis significantly compromised its efficiency.

[13] In fact, exports under this program grew at a slower pace than the rest of manufacturing exports over the same period. The regime, which rewarded sales that would not have been made in the absence of any official incentive, concentrated benefits on a few large export-oriented firms.

20% to 10%. Reimbursements on some exports were raised again in 1999-2000 and in 2001 with the purpose of improving the international competitiveness of local production, but after the 2002 devaluation they were cut in half again. Currently they vary from 0% to 6% and they have fell as a portion of total exports.[14] In November 2005, reimbursements to a group of food products were suspended to discourage exports and weaken pressures on domestic prices.

Specific tax incentives subsidize international sales of goods whose production is concentrated in some regions. The most significant benefits exports of products originating or manufactured in Patagonia (south of the Colorado River) and shipped through Patagonian ports. An additional 5% reimbursement on exports of mineral products extracted in the provinces of Catamarca, Jujuy and Salta was established in 1993. Both instruments go against the WTO Agreement on Subsidies and for that reason the Argentine government is gradually dismantling them.[15]

Until the early 1990s, financial support for exports was channeled through the Central Bank, but since then the agency in charge has been the Investment and Foreign Trade Bank (IFTB)[16]. The IFTB is a public second-level bank that channels loans to private banks to finance investment and, to a lesser extent, foreign trade projects: in 2003 only 16% of loans were destined for foreign trade operations. High financial intermediation costs, bureaucratic delays and lack of interest of private banks to offer credit lines have curtailed the effectiveness of this mechanism (Berkinstein 1996).

Several national and provincial public agencies carry out trade promotion activities. The Export-AR foundation is a non-profit organization associated with the Ministry of Foreign Relations, Trade and Worship and underwritten by several government agencies and business organizations. It organizes trade fairs and missions abroad, provides trade-related information and develops consulting and training activities. Its small budget, the limited participation of private sector representatives in decision making, the lack of specialization of its personnel and ineffective provision of information to firms greatly compromise its effectiveness. Local firms also receive assistance from Argentine embassies and consulates. The varying efficacy of these complementary services depends on the personal qualities of the officials in charge (Castello, 2001). A study by Bekinstein (1996) indicates that Argentine businessmen view trade missions and fairs organized by public officials favorably, but do not find the information and assistance received from government sources to be satisfactory. Results from the interviews conducted by Milesi, Yoguel y Moori Koenig (2001) reinforce this assessment. A majority of

[14] Except for a brief period in 2001, since 1995 exports to MERCOSUR have not benefited from reimbursements.
[15] Patagonic reimbursements started to drop in 2000 and are scheduled to completely disappear between 2007 and 2012.
[16] Banco de Inversión y Comercio Exterior (BICE).

small and medium-sized firms who responded to this survey do not use trade promotion services because either they ignore their existence or they find the information they receive to be inadequate for their purposes. Other trade promotion programs are carried out by the Undersecretariat of Agriculture, Livestock Fishing and Food, the Undersecretariat of Trade Policy and Trade Management and the Undersecretariat for Small and Medium-seized Firms and Regional Development, as well as by several provincial governments that develop autonomous trade promotion activities. The activities of different national and provincial agencies usually overlap and are poorly coordinated, thus conspiring against the overall efficiency of efforts in this area.

Scholarly assessments of export promotion policies tend to agree that during the 1990s their impact on the increase and diversification of exports was limited. CEPAL (2003) finds that export promotion instruments –particularly reimbursements to exports outside Mercosur – had small positive effects on certain agricultural and mining products and on larger firms. Export promotion instruments applied in Argentina have proven to be successful in other countries. Their performance in the case under consideration has been disappointing. The difference can be related to the volatility of reimbursement policies, the concentration of benefits on a few number of large firms, the weakness of second-level financial instruments and the information and coordination problems experienced by trade-promotion public agencies.[17]

Export taxes

Taxes on exports display the same volatile pattern that is characteristic of all trade policies towards exports. Since the late 19th century, Argentine governments have taxed exports often, most of the time in order to dampen the effect of devaluations on domestic prices and increase fiscal revenue. The liberalization policies adopted in the late 1970s led to a significant reduction in export taxes, but they were restored in the 1980s and almost completely eliminated between 1991 and 2001.[18] They returned to the scene in 2002 and currently affect all products with rates ranging from 5% to 25%.[19] The sharp increase in international prices for crude oil led national authorities to adopt a system of mobile taxes on exports of this product.[20]

[17] Studies assessing the efficacy of trade promotion instruments over the 1980s reach similar conclusions (See Bisang 1990).
[18] A 5% export tax on unprocessed leather and a 3% export tax on oilseeds were maintained to encourage domestic processing and compensate the effect of tariff escalation in export markets.
[19] Grains and oilseeds pay 20%, while most manufactures pay around 5%.
[20] The rate increases when the price of each barrel exceeds USD 32 up to a maximum of an additional 20%. The current tax rate on oil exports is 45%.

Several reasons account for the maintenance of taxes on exports since 2002 in spite of their distorting effect on trade policy. First, export taxes explain most of the improvement in the fiscal stance in the post-Convertibility period.[21] Second, the relatively small number of exporting firms facilitates tax administration (Lederman and Sanguinetti 2003). Third, taxes on exports mitigate the effect of devaluations on domestic prices. This is politically significant as food and energy-related products represent the bulk of Argentine exports and weigh heavily on domestic production and consumption patterns. For this reason the government has increased exports taxes on sectors that reorient their sales from the local market to international markets.[22] Finally, by taxing exports the state captures part of the rents accruing to agricultural and oil extracting sectors as a result of the devaluation and higher international prices.[23]

c. International trade negotiations

Since the early 1990s, Argentina's negotiation strategies focused on the regional scale and more precisely on its relationships with Brazil in the context of MERCOSUR. In Aggarwal and Espach´s terms (2004), this is the strategy of a *"regional partner, focused at the minilateral (concentrated) level, with transregionalism pursued through collective regional activity"*. Currently, Argentina is engaged in many negotiations on complex and overlapping topics (Bouzas and Pagnotta 2003) such as: internal MERCOSUR affairs, negotiations with other Latin American countries, negotiations with the US over an FTAA and with the European Union and the WTO's Doha Round negotiations. Argentina also pursues bilateral negotiations with countries such as China and Russia.

The multilateral dimension: Argentina and the GATT/WTO

Argentina joined the GATT in 1968, after the completion of the Kennedy Round. As a member, Argentina gained concessions from the European Community and the US, which were broadened during the Tokyo Round (1973-1979). As a developing country, Argentina had only to consolidate a small number of tariff positions in exchange (De las Carreras, 1991). Until the Uruguay Round, Argentina participated in multilateral trade fora only sporadically (Ablin and Makuc 1995).[24] However, it was very active in the Uruguay round[25] acting both alone and through the Cairns Group. Argentina's

[21] They have accounted for 8% to 10.5% of total tax collection since 2002.

[22]. Late in August 2005 government increased export tax rates on dairy products from 5% to 15% after attempts to reach a price agreement with dairy firms failed. To institutionalize this policy the Argentine government has recently adopted a "competitive need clause" by which firms affected by internal or external factors may apply for tariff reductions, increases in export taxes or a reduction of reimbursements.

[23]. For an estimate of the distribution of after-tax oil rent see Gaggero and Grasso (2005).

[24]. Argentina implemented many of the codes agreed during the Tokio Round well ahead (Ablin and Makuc 1997). For example, the Customs Valuations code was implemented in 1988 and the Anti-dumping code in 1992.

[25] We thank Néstor Stancanelli for calling our attention to this point.

unilateral trade liberalization was completed before the end of the Uruguay Round. Consequently, commitments did not always result from an exchange of concessions but were sparked by domestic considerations.[26] As a result of the Uruguay Round, Argentina consolidated its tariffs at around 35%. The ratification of the Uruguay Round agreements meant the adoption of formal procedures to enforce trade relief measures, the reform of intellectual property laws according to the TRIPs, a commitment to eliminate measures incompatible with TRIMs, and a reduction of subsidies.[27] The new commitments entailed acceptance of WTO conflict resolution procedures, which Argentina also used successfully as a complainant. [28] WTO commitments also served to restrain the use of certain trade protection measures during the 1990s.

Argentina is seeking further liberalization of agricultural trade from the US and the EU, and has thus remained active in the Doha Round. The country partakes of a coalition led by Brazil, China and India--countries that are able to make concessions of interest to developed countries. Having adopted unilaterally fairly open investment and trade regimes in the 1990s, Argentina has little to offer as a single country in the multilateral arena. Thus, a coalition strategy seems a sensible way to follow.

The regional dimension: Argentina in MERCOSUR

Argentina's incentives to move closer to Brazil[29] rested mainly on political considerations[30] with the significant economic element of gaining access to a large market. (Bouzas 1998). This partnership was also perceived as a means to gain leverage in international negotiations. After a long period of rivalry, competition and mutual distrust,[31] by the mid-1980s both countries signed the Program of Economic Exchange and Cooperation (Programa de Intercambio y Cooperación Económica-PICE). The critical macro-economic situation of the late 1980s restored protectionist measures. After a sequence of bilateral agreements, a new phase in the integration process between Brazil and Argentina was inaugurated in 1991 in the context of MERCOSUR. Paraguay and Uruguay joined the partnership,

[26] Bouzas and Soltz (2004) analyze Argentina commitments before the GATS.
[27] For a detailed analysis of these commitments and their implications see Casaburi et al (1998).
[28] These are the cases of Chile's price ranges and definitive anti-dumping duties applied by the US to certain steel products. A controversy against the EU about measures affecting trade of certain bio-technological products (the so-called transgenic soybean) is still under way.
[29] Argentina actively took part in ALALC negotiations during the 1960s. This integration process soon faced the constraints posed by the very logic of ISI, the exhaustion of the phase of "easy" concessions and high political and economic instability in participating countries. Acknowledging these difficulties, a more flexible scheme without specific time commitments was adopted (the ALADI agreements established in 1980). This context drew Argentina and Brazil closer by the mid 1980s.
[30] Economic integration with its neighbour dissolved military confrontation and helped democratic governments to reach their priority goal of reducing the influence of the Armed Forces in domestic politics.

which involved adopting an automatic, linear and generalized trade liberalization mechanism.[32] As expected, Argentina's trade with its regional partners and the level of economic interdependence increased as a result. However, the bilateral relation with Brazil has been loaded with significant asymmetries: whereas Brazil's relative significance as a destination of Argentine exports increased until 1998, it contracted afterwards to reach levels similar to those prevailing in the early 1990s. In contrast, the share of imports from Brazil in total Argentine imports increased permanently, heightening the exposure of domestic producers to the competition of Brazilian products.

MERCOSUR increased the share of Argentine industrial products in total exports to Brazil, thus giving rise to a trade specialization pattern quite different from that with the rest of the world. However, Argentina's stance towards MERCOSUR has been ambiguous. This has stemmed from divergent interests with its partners, a difficulty in setting priorities and the consideration of other preferential negotiation opportunities (Bouzas 2001; Ablin and Bouzas 2004). It also derives from internal dissents that gained intensity at different times, but that were present since the very inception of the integration process. While some sectors advocated other partnerships (basically with the US),[33] others strove for deeper integration with MERCOSUR. Mounting dissatisfaction with MERCOSUR has derived in part from the unsatisfactory treatment of asymmetries, combined with Brazilian reluctance to adopt a mechanism of intra-zone safeguards.

In spite of these difficulties, Argentina's trade negotiations with the rest of Latin American countries and with developed regions have been channeled through MERCOSUR.[34] Since Argentina's offensive interests lay where most counterparts exhibit strong defensive interests, progress in these negotiations has been modest. After subscribing free trade agreements with Chile and Bolivia in 1996, MERCOSUR faced difficulties in reaching similar deals with other ALADI members. Only in late 2003, and after eight years of thorny negotiations, MERCOSUR countries signed a free trade agreement with the Andean Community countries. Disagreements about agricultural subsidies and market access have blocked negotiations with the US and the EU.

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[31] Russell and Tokatlian (2003) highlight the fluctuations of Argentine perceptions of Brazil, which traditionally "was seen as an indispensable ally to enlarge national autonomy, strengthen international negotiation capabilities but also as the main geopolitical rival, which threatened national security and even our country's territorial integrity."

[32] This mode of regional integration, with "more market and less state," suited the neo-liberal paradigm prevailing over economic policies at the time.

[33] Criticisms flourished during the negotiation of the Common External Tariff (1992-94), when the Brazilian government announced the adoption of an automobile regime similar to the Argentine one, after the devaluation of the Real (1999-2001) and more recently with the generation of negative trade balances for Argentina (2004-05).

[34] For an analysis of Argentina's incentives in these negotiations see Bouzas (1999).

After this stylized description of the dominant patterns in Argentine trade policy we turn to a consideration of their domestic determinants.

2. Domestic determinants of international trade policy in Argentina

This section presents some theoretical arguments to guide the interpretation of the impact of domestic factors on international trade policy. Based on these arguments we then offer a brief interpretation of the Argentine case. The analysis is divided in two parts, structural and institutional factors. Passing references will be made to ideological factors and junctures, but they will not be the object of a separate treatment.

a. Theoretical arguments

Trade policies obviously reflect policy makers' intentions. However, those intentions do not always express policy makers' preferences. Policy makers face restrictions and internalize them in forming their preferences. Theories should account for the effect of these restrictions that interact with ideologically-inspired preferences to shape policy decisions. In the case of trade policy these restrictions can be roughly classified according to their origin.

National authorities take into account the actual or potential trade policies adopted by other national states to decide on levels of domestic market protection, implement export promotion measures (Brander 1995) and develop international negotiation strategies (Maxfield 2001). These considerations, together with bilateral, multilateral and regional agreements constrain trade policy choice. As these factors operate outside the national territory, we can then call them external factors. External factors are significant determinants of international trade policies. However, as we have indicated, our discussion will focus exclusively on domestic factors. This does not mean that we believe domestic factors to be more important. Indeed, domestic factors are not sufficient to interpret some features of Argentine trade policy, particularly the persistence of relatively low tariff barriers.

We will not comprehensively review the extensive literature on domestic factors and international trade policy.[35] Instead, we will briefly outline some theoretical arguments to guide our analysis of the Argentine case. The arguments are divided into four groups: structural factors, institutional factors, ideological factors and conjunctural factors.

[35] For two excellent comprehensive assessments of knowledge in the field see Rodrik (1995) and Milner (1999).

Structural factors

Trade and trade policies –even intra-industry trade—have distributional consequences (Rodrik 1995, 1460-63). Individuals develop preferences about distributional outcomes and, given certain beliefs about the influence of trade policy on trade flows, derive preferences on trade policies from preferences on outcomes. Approaches differ in their criteria to identify the sources of those preferences and in their specification of the mechanisms through which preferences over trade policy translate into attempts to influence policy-making

According to one approach, it is the relative abundance of factors of production in a given country that prompts their owners to develop different preferences over international trade and trade policies. The "factor endowments approach" states that owners of factors of production that are abundant in a given country should favor free trade, since it will raise their income. By the same token, owners of scarce factors should seek protection through restrictions on international trade. The factor endowments approach assumes free movement of factors of production across sectors. The factor-specific approach does not. According to this second approach, owners of factors of production employed in export-oriented sectors will benefit from trade liberalization whereas owners of factors employed in import-competing sectors will benefit from trade restrictions.

The empirical literature has found support for both factor-endowments and factor- specific arguments (among many others Mayda and Rodrik 2005; Esfahani 2005; Milner 1999 and citations therein). These arguments help us to identify the necessary conditions for political mobilization for or against a certain trade policy. However, they are not sufficient to interpret constraints on trade policy making. Political mobilization from representatives of sectors or factors of production may or may not affect trade policy, depending on other intervening elements. Considerations of this kind have led scholars to focus on other attributes of societal sectors.

A number of studies explain the ability of societal actors to influence trade policy in terms of features that indicate either political *influence* or political *salience*. "Political *influence*" refers to the ability of a societal actor to directly impose costs on policy makers in case they decide against the actor's interests. "Political *salience*" refers to the costs that result from hurting a particular sector, but that are not directly imposed by sectoral collective action. Market and spatial concentration and financial capability to contribute to political campaigns are common indicators of political influence. Labor-intensity, employment of low-skilled workers, restricted access to credit and insurance (Esfahani 2005) and rising import penetration are usually referred to as indicators of political salience. The literature is not altogether clear as to what prompts policy makers to protect vulnerable sectors or to choose vulnerability to international trade as a criterion to grant protection. However, vulnerability to trade can be construed as a proxy for potential increase in unemployment, potential political mobilization, potential electoral loss or potential raise in the costs of social protection. Any of these factors may lead the authorities to restrict trade in order to protect domestic sectors.[36]

In sum, trade and trade policy have distributional consequences. According to structural approaches, relative factor abundance or sectoral international competitiveness set fundamental preferences over trade policy. Those preferences can translate into effective restrictions on trade policy-making depending on the political salience of the sectors involved or the political influence of particular sectoral actors. Our argument will try to relate the evolution of trade policy in Argentina to the political salience or political influence of societal actors.

Institutional factors

Structural approaches account (with different degrees of success depending on the topic) for the "demand side" of trade policy. A complete account should bring "supply side" considerations into the picture. Two basic reasons justify this claim. First, satisfying societal demands is one among many constraints that public officials face. Consequently, they enter as just one factor in the utility function of policy makers. Second, the state is not a unified actor. Policies result from the interaction between different individuals and groups endowed with legal authority to intervene in public policy decisions. Our argument considers two kinds of supply-side elements: the ideological orientation of policy makers and political institutions.

We understand political institutions as "the set of contextual features in a collective choice setting that defines constraints on, and opportunities for, individual behavior in the setting" (Diermeier and Krehbiel 2003). In other words, political institutions are the rules (both formal and informal) of the political game. Several efforts have been made to understand how the rules according to which politicians decide affect trade policy-making (Rogowski 1987; Mansfield and Busch 1995; Nielson 2003; O'Reilly 2005). These studies present and test different hypotheses and reach different conclusions. Their fundamental tenets can be summarized in two statements: political institutions affect, a) the relative insulation of decision makers from special-interest pressure, and b) the relative simplicity of decision-making processes. From these basic insights scholars infer different corollaries.

[36] It should be noted that, as Rodrik (1995) argues, the literature tends to focus on the reasons why societal sectors will demand trade restrictions. It is far from obvious that this should always be the case. The systematic bias of trade policies

Predictions about the influence of institutions on the *nature* of trade policies differ widely. For example, Mansfield and Busch (1995) predict domestic market protection and Nielson (2003) predicts trade liberalization from institutions that insulate policy makers from societal pressures. The contrast is unsurprising, for direct inferences of particular trade policies from a given institutional framework are misleading. Institutions determine how many actors get to decide, how cohesive those actors are, and how their preferences are aggregated to reach a final decision. The nature of the decision depends on the preferences of those actors. Different public officials advocate different trade policies and have different influences in the trade policy game.[37] Thus, it is not possible to predict what the final decision will be by just knowing how many players there are and how aggregating rules weigh their preferences.

Institutional features may lead to stronger predictions about the relative *stability* of trade policies. We expect more volatile policies from insulating institutions. Rules that prevent the intervention of societal actors in decision making or aggregate voters' preferences at higher levels insulate politicians from special interest pressure. Since different parties tend to advance different trade policies (O'Halloran 1994) we expect trade policy change from party turn-over when political institutions effectively insulate policy makers from societal pressures. Following this line of reasoning, we will interpret the relative stability of trade policies in Argentina taking into account the effect of political institutions on the insulation of policy makers.

Rules that make for more cumbersome decision processes are associated with more stable policy processes. The relative simplicity of decision making processes is best explained in the *veto players* approach developed by George Tsebelis (1995, 2002). A veto player is an individual or collective agent whose agreement is necessary to bring about policy change.[38] Constitutional prescriptions, attributes of the party system and electoral rules determine the number and cohesion of veto players. Tsebelis defines as *institutional veto players* those agents whose agreement is required by legal prescriptions to change policy. Parties that partake of government coalitions are defined as *partisan veto players.*[39] The number of institutional players depends on legal mandates. The number and the internal cohesion of partisan players depend on electoral rules. Partisan alignment can modify the number of veto positions

against free trade is thus left unaccounted for. Rodrik suggests that the significance of tariffs as a source of fiscal revenue and the statu quo bias of any policy hold the greatest promise in accounting for anti-trade bias (1995, 1480).

[37] Preferences about trade policy outcomes can be processed differently in different institutional settings. That is, preferences are not *totally* exogenous to the political game; yet, they are *basically* exogenous.

[38] Strom and Swindle (2002) develop further the language to refer to institutional positions with regard to their authority to intervene in policy making. They distinguish between *veto players*, agents whose agreement is necessary but not sufficient to bring about policy change; *decisive players*, agents whose agreement is sufficient but not necessary to enact policies and *dictators*, whose agreement is both necessary and sufficient to adopt political decisions.

legally established; players with a similar partisan composition can be counted as one player. The number and cohesion of veto players, given the ideological distances that separate them, affect the set of outcomes that can replace the statu quo (the *winset* of the status quo). The size of the winset is smaller when the number of veto players and the ideological distance between them are larger and when players are more cohesive. When the winset is very small, the status quo prevails and "policy stability" obtains. Extending this general framework, we expect more stable trade policies in systems with a higher number of veto players and with more cohesive players. Accordingly, we will interpret relative stability in Argentina's trade policy in the light of these two institutional factors (Tommasi and Stein 2005).[40]

Institutional arguments can be applied to account for consistency in the implementation of trade policy. We understand policy consistency as the ability of public officials to sustain policy goals over time. It mainly depends on their ability to solve coordination problems. Along the lines detailed above, it could be argued that effective institutional isolation and fewer veto players lead to more consistent implementation.

Ideological factors

Trade policies are intended to produce substantive economic and political results. Politicians hold beliefs about the likely results of the policies that they implement. Those beliefs drive policy making and policy implementation. Politicians also value the distributional effects of policy according to normative considerations. We conceive ideological factors as the set of beliefs that drive policy making and normative considerations that shape the assessment of substantive results. This set of beliefs and norms could be derived from theories or experience. It could also be associated with partisan identity (O'Halloran 1994) or the individual social status of policy makers (Mayda and Rodrik 2005).

Policy makers usually are familiar with structural and institutional factors. They can always formalize this knowledge in terms of a "theory" of the likely effects of policy. They can justify this theory on some normative ground. Therefore, it is often difficult to determine the degree of independence of ideological factors. However, the literature identifies numerous instances of sudden policy reversal, particularly unilateral trade liberalization in Latin American countries (Milner 1999; Rodrik 1994) that can at least be partially accounted for by a change in the ideological orientation of policy makers and

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[39] Members of interest groups or sections of the state apparatus such as the armed forces can also count as veto players. The number of veto players can thus vary across issues and over time. However, the distinction between institutional and veto players is most relevant for a general analysis of political systems.

[40] This argument is consisten with O'Reilly's (2005) findings on a sample of 23 OECD countries during the period 1960-1996

policy communities. This change may reflect an interpretation of structural or institutional changes. However, the ideological mediation is as relevant to interpreting the timing and generality of episodes of unilateral liberalization as it is relevant to interpreting the protracted previous ISI experiences.

Interactions among factors and junctures

Although some efforts have been made to model the simultaneous influence of structural and institutional factors (see, for instance, Mansfield and Busch 1995) there is still no general framework that can simultaneously account for both the demand-side and supply-side aspects of international trade policy (Rodrik 1995). Non-societal theories are still inchoate and the interaction among structural, institutional and ideological factors poorly understood. For this reason, our interpretation of the Argentine case draws alternatively from different theoretical arguments that, according to the rationales exposed here, we deem sound.

In line with some political science literature, we understand *junctures* as points in time when relevant variables simultaneously adopt critical values so as to prompt or make feasible previously unlikely policy change. In this sense, *junctures* should not be interpreted as carrying an explanatory weight of their own, but as labels indicating sudden or convergent change in structural, institutional and/or ideological factors. For example, some studies relate recessions with increasing domestic market protection (see Rodrik 1995 and citations therein). It is not recession as such, but the societal demands expected to spring from a drop in domestic production that prompt changes in trade policy. It should be noted that juncture arguments figure prominently in interpretations of unilateral trade liberalization in developing countries, including Argentina (Rodrik 1994).

b. Structural factors: structure and nature of domestic interest groups

Traditionally, clashes among dominant economic sectors heavily influenced international trade policy and negotiation strategies in Argentina. Until the early 20th century, these clashes were easily resolved in favor of exporting landowners and against the embryonic manufacturing sectors. As the industrialization process unfolded, the structure of economic sectors became more complex. Some industrialists (mainly in the metal-mechanic sector) developed technical abilities during the import substitution period and enjoyed the benefits of export promotion (Bisang y Kosacoff, 1994). By the late 1960s they had started to export part of their product. In the 1980s, when domestic demand contracted, some producers of intermediary goods also joined the select club of exporters. These sectors gained most of the benefits of export promoting policies, while also taking advantage of import restrictions and a high level of market concentration in the domestic economy. These capital-intensive sectors managed to sustain a relatively high level of protection even during the liberalizing process of the 1970s and exploited the additional benefits of industrial promotion schemes in the 1980s. Yet, primary goods still constituted the bulk of Argentine exports.

Industrial interests resisted the liberalizing process that started in the late 1980s. A combination of ideological beliefs in the political elites, pressure from multilateral institutions and a macro-economic crisis neutralized this resistance and paved the way for a faster and deeper liberalizing effort by the early 1990s. Tariff reduction became a *fait accompli,* the reversal of which was made highly unlikely by regional and multilateral agreements. Under these conditions, industrial interests sought sectoral negotiations and ad-hoc measures to delay or dampen the effect of trade reforms (Viguera 1998). This sectoral and "minimalist" strategy succeeded during the initial period and was also useful in more recent episodes of external shock.

Even in the context of a more open trade policy environment, some producers of intermediary goods (such as steel) were able to strengthen their positions in concentrated and still protected domestic markets. Other domestic groups, previously dependent on trade restrictions and state assistance, adjusted their business strategies by reorienting their investment toward activities with natural comparative advantages (mainly natural resource-intensive) and less vulnerable to international competition (such as partnerships with foreign firms in the privatization of public utilities (Bisang 1998; Basualdo 2000).

To what extent can the structural factors just described help to interpret the main features of Argentine import policies? Table 4 suggests that the highest protection has been granted to sectors of predominantly domestic capital, except for the case of automobiles (the weight of which in total industrial production may account for the resilience of trade protection).[41] Within the group of protected sectors we distinguish politically influential groups (producing intermediary goods, such as steel and paper, and capital intensive, durable consumption goods, such as home appliances) and politically salient sectors (mainly producing labor-intensive, final consumption goods such as textiles, footwear and toys). Whereas politically influential groups tend to operate in markets characterized by relatively high levels of concentration, politically salient sectors usually operate in more competitive environments. During the 1990s this second group experienced increased import penetration from products originating mainly in Brazil and, in the case of toys, China.

Predominance of domestic capital and rising import penetration are necessary but not sufficient conditions for trade remedies. To illustrate this point consider the case of the capital goods industry. In spite of the dominance of local producers and mounting foreign competition, the economic authorities gave priority to technological modernization as compared to the protection of local production. Other sectors (such as wood furniture) did not enjoy remedial protection in spite of suffering a true avalanche of imports. We observe that the lack of remedial protection in these cases is consistent with their limited political influence and salience.

The structural configuration of sectors also sheds light on export policies and international trade negotiations. An average of only 350 firms accounts for much more than three quarters of total exports. (Crespo Armengol 2005). This small group of firms reaps most of the benefits from export promotion, which has mainly served to raise profits, since these exporters are already internationally competitive. The instability of export incentives (excluding special regimes), the lack of foreign trade finance and the inefficacy of trade promotion prevent smaller firms from developing consistent export-oriented strategies. Although the number of exporting firms rose in the second half of the 1990s and after the 2002 devaluation, they usually engage in small transactions that follow an erratic path. [42]/[43] If a larger number of smaller firms were engaged in foreign trade, their expected reliance on export incentives and export promotion policies may encourage them to lobby more effectively for consistency and stability.

Large exporters also constitute the most influential group in defining Argentina's offensive interests in preferential and multilateral trade negotiations. Their key demand is the removal of access barriers to foreign markets, particularly in the developed world. As we argued before, in multilateral arenas Argentina relies on the market access concessions that its big regional partner (Brazil) may, but is

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[41] In the context of this paper we considered the national origin of capital in the early 1990s, when "contingent" protective measures were granted to this sector.

[42] Bianchi, Bozzalla and Mascareño (2003) show that half of the firms that began exporting in the second half of the 1990s did so discontinuously, 40% abandoned the effort and only 10% continued to export throughout the period (1994-2002).

[43] Small and medium-sized firms prevail in exports of capital goods, electronics, medical instruments, construction inputs, fruits and fishing (Crespo Armengol 2005).

unlikely, to make. Following Krishna and Mitra (2003) we believe that Argentina agro-exporting firms will find weak incentives to demand a reduction of protection to import-competing sectors as long as developed countries continue protecting their agricultural producers.

Table 4: Main features of highly-protected sectors

		Sectors							
		Automobiles	**Sugar**	**Footwear**	**Home appliances**	**Toys**	**Paper**	**Steel**	**Textiles and garment**
Trade policy	Nominal Protection Rate (%)	High	High	High	Intermediate	High	Intermediate	Intermediate	High
	Effective Protection Rate (%)	High	High	High	Intermediate	High	Intermediate	Intermediate	High
	MERCOSUR Tariff treatment	Special	Special	Exc transition regime/CET	Exc transition regime/CET	na.	Exc transition regime/CET	Exc transition regime/CET	Exc transition regime/CET
	Non tariff protection	Performance requirements	Variable tariff	SMIDs, safeguard clauses, non automatic previous import licenses	Non automatic previous import licences, market order agreements, safeguard clauses	SMIDs, non automatic previous import licenses	Safeguard clauses (1992-94)	Antidumping duties, market ordering agreements	SMIDs, automatic previos import licenses
	Brazil	Performance requirements	Variable tariff	Automatic previous import licences	Non automatic previous import licences, market order agreements, safeguard clauses	Non automatic previous import licenses	Safeguard clauses (1992-94)	Antidumping duties, market ordering agreements	Automatic previos import licenses, market ordering agreements (denim)
Foreign trade	Exports/Gross production value (2004) (*)	41.7	na.	2.7	3.1/5.4	na.	14.1	20	15.4/16.4/5.3
	Imports/Apparent Consumption (2004) (*)	51.1	na.	16.8	26.8/21.1	na.	18.7	13.5	22.55/22.3/7.6
	Predominant origin of the imports	Brazil	na.	Brazil/China	Brazil/China	China	Brazil/USA/Chile	Brazil	Brazil
Structure	Share in industrial employment (%) (*)	1.1	na.	2.8	1.1/0.3	na.	2.2	2.1	2.8/1.2/2.8
	Share in industrial gross production value (%) (*)	3.5	na.	0.8	0.9/0.8	na.	3.2	5.7	3.5
	Concentration level	Concentrated	Concentrated, regional concentrated	concentrated (sport footwear), non concentrated (non sport footwear)	Concentrated	Non concentrated	Concentrated	Concentrated	Non concentrated
	Capital origin	Foreign	National	National	National/Foreign	National	Foreign (previous national)	National/Foreign (previous national)	National

na. Not available
(*) Include subsectors

Source: Authors´ elaboration on data from MeyP, INDEC, CEP, Chudnovsky y López (2001), Crespo Armengol et al (2004) convergencia del AEC

c. Institutional factors: insulation, veto players and trade policy in Argentina

In this subsection we describe the features of the Argentine political system that are most relevant to interpreting trade policy patterns. We divide the analysis into three parts. The first one deals with constitutional features. Constitutional features are rules of the political game that are explicitly set by the Constitution or by laws of constitutional standing. The second refers to basic characteristics of the party system. Partisan features can be interpreted as contextual constraints on policy making (by our definition, as institutions) between elections. The third section addresses bureaucratic features. By this we refer to the distribution of policy making authority and the policy capabilities of different Executive agencies (mainly at the national level).

Constitutional features

Presidentialism: Argentina is a presidential republic. Executive power is exercised by an individual who is directly elected in a nationwide electoral district for a fixed four-year term. Argentine law endows presidents with significant legislative powers. Presidents can initiate and veto legislation and legislate by emergency decree. Vetoes can affect an entire piece of legislation or only parts of it. A qualified majority of 2/3 of both chambers in Congress is required to override presidential vetoes, however, veto overrides are rare. In practice, this means that Presidents should agree on every detail of a bill for it to become a law. The 1994 Constitution grants Congress the ability to revise or suspend emergency decrees. However, since this faculty has not been reglamented, in practice Presidents can chose whether to initiate legislation or legislate by emergency decree as they see fit.

In addition, Argentine political mores implies further delegation of Congressional prerogatives on the Executive. Presidents Menem, De la Rúa, Duhalde and Kirchner have all asked, obtained and renewed congressional approval to bypass congressional oversight in economic issues, most of the time in the form of so-called "economic emergency laws." Typically, these laws are sanctioned at times of deep economic crisis, but they have frequently stayed in place long after the emergency passed.

In sum, no change from the statu quo is possible without presidential approval. This turns the President into a powerful veto player. Typically, Argentine presidents are able to set new policies close to their ideal. Extensive use of decree powers transforms presidents into decisive players (whose agreement is sufficient to bring about policy change). The Argentine presidency provides for rather simple decision-making processes. We would then expect relatively high policy volatility whenever societal preferences, ideological orientations of policy makers or macro-economic conditions change.

In terms of policy insulation from societal pressures, the effect of presidentialism is difficult to ascertain theoretically. Some literature correctly argues that presidents are less likely to fall prey to particular interests when they are elected, as they are in Argentina, in a nationwide district (Nielson 2003). However, elections are not the only means through which sectoral pressure can be channeled. Sectoral organizations can lobby Executive agencies and the effectiveness of that lobbying activity may be higher when the voice of the Executive is the only relevant one to decide over policy issues. Thus, there are reasons to expect that the delegation of strong legislative powers to the President will lead to less effective policy insulation.

Part of the reason that helps us associate Argentine presidentialism with policy volatility; also helps us to account for the relative inconsistency in policy implementation. If the decision process is highly concentrated, the ability to redress, suspend or simply dilute previously implemented policies, increases. However, the strong concentration of political power in one office could also lead to consistent implementation; particularly when presidents can rely on professional and disciplined bureaucracies. Therefore, we relate the the instability in the establishment of non-tariff measures and the inconsistency in the implementation of export-promotion schemes previously identified not to presidentialism as such, but to its interaction with a fragmented and poorly coordinated bureaucracy.

<u>The role of Congress</u>: the Argentine Congress is divided into two chambers. The lower one (Chamber of deputies) has 256 members elected in 24 provincial districts for four-year terms. The Higher Chamber (Senate) has 72 members elected in 24 provincial districts for six-year terms. Article 75 of the Constitution grants Congress the authority to set tariffs, legislate on customs issues and ratify international treaties. In practice, Congress delegates many of these authorities to the Executive. Congress has intervened in trade policy-making only when the interests of regionally concentrated sectors were affected (as it was the case of intra-MERCOSUR sugar trade or some regionally concentrated export promotion

mechanisms) or when WTO commitments required a reform intellectual property protection laws (Bouzas and Pagnotta 2003, 90).

Bicameralism would make for a policy game with a higher number of players. However, Peronist presidents usually enjoy solid majorities in both Chambers of Congress. This allows them to turn most of their agenda into law. Non-Peronist presidents, in contrast, have faced Peronist majorities in the Senate, although they had majorities in the lower chamber for most of their terms. Partisan coincidence between the President and legislative majorities reduces the number of effective veto players and increases the likelihood of delegation of Congressional prerogatives to the Executive (Shugart and Carey 1998). Thus, for most of the time international trade initiatives did not face significant opposition in Congress. Those that did, mostly reflected the ability of regionally concentrated interests to exercise pressure over their legislative representatives. The Argentine legislative process is simpler than one would expect after reading the Constitution. This is also consistent with higher trade policy volatility.[44]

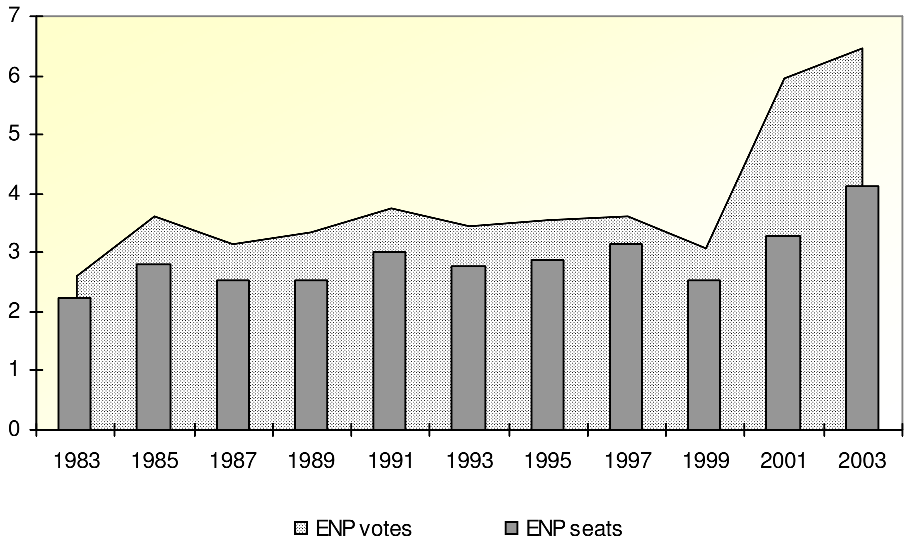
Electoral system: electoral rules constrain potential party system fragmentation (Amorim Neto and Cox 1997) and influence party discipline in Congress (Carey and Shugart 1995). In Argentina the average number of legislators that provinces return in each election is rather low (3 for Senators and ≈ 5 for deputies). Therefore, in spite of the proportional representation formula used to allocate seats in the Lower Chamber, a few number of parties can expect to gain seats,. Voters choose among lists of candidates selected by political parties. The expectation to get a place in the party list, along with other factors, prompts legislators to follow party lines in Congressional votes. Few and disciplined legislative parties lead to larger partisan powers of presidents and a lower number of veto positions. For the reasons stated above they are both consistent with higher policy volatility and low policy insulation.

Partisan features

44 Some authors construe bicameralism as a sign of feeble insulation from societal influence. We believe that bicameralism could also be consistent with stronger insulation. Still, as the Argentine Congress is not a relevant actor in trade policy making, this argument loses relevance to interpret the case of Argentina.

Evolution of party system fragmentation: Figure 2 displays the evolution of party-system fragmentation in terms of the effective number of parties (that is, the number of parties that receive votes or earn seats weighted by their share of votes or seats). As we can see, the increase has been significant and persistent since 2001. Given that each province returns relatively few legislators, fewer parties gain seats in Congress. Accordingly, the increase in fragmentation in the legislative arena is not as pronounced as in the electoral arena.

Figure 2. Evolution of party system electoral and legislative fragmentation 1983-2003
Effective number of parties



Source. Authors' calculations on data from the National Electoral Department, Ministry of the Interior.

Electoral and legislative levels of party fragmentation were rather low for most of the period. Recent party fragmentation affected mainly non-Peronist parties that participated in the coalition that backed the De la Rúa administration. The Partido Justicialista withstood the electoral maelstrom and thus allowed Peronist incumbents to keep on enjoying significant Congressional support. The dispersal of opposition organizations reinforces the centripetal tendencies in the policy making process. The structure of the Argentine party-system poses no additional restrictions on trade policy making and therefore, again, provides for higher policy volatility and low policy insulation.

Linkages between parties and society: Political parties establish different kind of linkages with societal actors. The political science literature distinguishes between clientelistic and programmatic linkages (Kitschelt 2000). Clientelistic linkages consist in the exchange of political support (votes, campaign contributions) in return for private or club goods. Program linkages consist in exchanges of political support for public goods. Argentine political parties, especially the Partido Justicialista, favor clientelistic linkages (Leiras 2004). In a predominantly clientelistic setting, elections place no effective constrain on policy making. Thus, clientelism insulates policy makers from the concerns of the citizenry at large (although probably not from the pressures of organized interest groups). Clientelism also gives parties ample room to redefine policies, discourses and alliances with organized actors from one election to the next.

Given that Argentine political parties are ideologically inconsistent, sectoral actors channel trade policy demands directly through corporatist organizations, bypassing the party system. The most significant organizations (yet, of course, not the only) representing business interests are the Argentine Rural Society (SRA) and the Argentine Industrial Organization (UIA). They both are large, complex and experienced organizations. Their incidence on policy making is significant. Divergences between export-oriented and import-competing sectors have often posed coordination problems to these organizations. These problems have been particularly acute in the case of UIA. Although UIA has often demanded protection for import competing sectors, the most significant influence of these organizations over trade policy comes from their advocacy for or against fundamental macro-economic policy, especially exchange rate policy.

Bureaucratic features

A complete account should bring into the picture the attributes of bureaucratic organizations. The division of authority among Executive agencies (Ministries, Secretaries, Undersecretaries and National Departments) can be analyzed in terms of the veto players approach and its effects on policy insulation.[45]

Up to the early 1990s, trade policy prerogatives were concentrated in the Ministry of Economy. In 1992, Law 24.290/92 split competences between this Ministry and the Ministry of Foreign Relations. The former has authority over tariffs, export taxes, quantitative import restrictions, licenses and special import regimes, customs regimes,

[45] Given that bureaucratic agents are typically not endowed with political authority of their own, political transaction-costs considerations are somewhat less relevant to interpreting interbureaucratic coordination.

export tax rebates and trade relief. The Ministry of Foreign Relations, in turn, is responsible for international trade negotiations and trade promotion activities abroad. The Ministry of Economy also has a say on trade negotiations. This basic distribution of functions was kept unaltered since 1992, but the division of labor among subagencies within wach Ministry has experienced frequent changes (Bouzas and Soltz 2004).

Within the Ministry of Economy, most trade-policy related authority is concentrated in the Secretariat of Industry, Trade and Small and Medium-Sized Firms, which is in turn divided into three Undersecretariats. The Undersecretariat of Trade Policy and Management carries most trade-related responsibilities, such as the implementation of trade relief measures and export promotion programs and the determination of tariff levels (although it has no final authority on this area). It also participates in foreign trade negotiations. The Undersecretariat of Industry administers industrial promotion regimes and, since 2003, coordinates the National Fora on Industrial Competitiveness. The Undersecretariat for Small and Medium-Sized Firms and Regional Development helps smaller firms with financial, informational and training trade-promoting activities and oversees the National Foreign Trade Commission, which participates in trade relief investigations. Within the sphere of the Secretariat of Economic Policy, the Undersecretariat of Economic Coordination (through the Department of Foreign Economic Policy) has primary authority on tariff issues. The Secretariat of Agriculture, Livestock, Fishing and Food carries out export promoting programs of its own and partakes actively in international trade negotiations. Finally, the Federal Administration of Public Revenue, also under the direction of the Ministry of Economy, collects taxes and custom duties.

Within the Ministry of Foreign Relations, two agencies dependent from the Secretariat of Trade and International Economic Relations partake of trade policy. The Undersecretariat of International Trade carries out negotiations in multilateral arenas and trade promotion activities overseas. The Undersecretariat of American Economic Integration and MERCOSUR, in turn, is responsible for preferential agreements. This Ministry, along with private sector organizations, ran the Export-Ar foundation, an entity that offers foreign trade promotion services to exporters. Also under the auspices of this Ministry is the Center of International Economics that performs studies on trade and regional integration.

Scholarly opinion highlights the coordination problems resulting from this highly fragmented bureaucratic structure (Bouzas and Pagnotta 2003; Bouzas and Soltz 2004; Tussie et. al. 2003). Jordana and Ramió (2002) classify Argentina as a case of high institutional fragmentation and a medium level of formalization and coordination. There are no formal inter-Ministerial coordinating mechanisms and consultations among officials in charge of different aspects of trade policy are, according to existing assessments, highly dependent on the personal attributes of incumbents. Lack of consultation leads to overlappings and lower negotiation efficiency, especially in multilateral arenas.

Bureaucratic fragmentation affects both policy insulation and policy stability. The absence of inter-agency binding coordinating mechanisms makes public officials more vulnerable to interest-group pressure. Agencies in charge of different aspects of trade policy have no overarching agreement or procedure to abide by. Societal actors, especially those with long experience in dealing with state authorities, may exploit this leeway when negotiating an official response to their claims. The ex-post, ad-hoc and sectorally concentrated pattern of trade protection, illustrates this point.

In terms of policy stability, a fragmented bureaucracy offers no robust check on the policy initiatives decided by elected officials. In summary, the joint consideration of constitutional, partisan and bureaucratic features helps to account for the predominantly volatile and feebly insulated pattern of trade policy making in Argentina.

3. Concluding remarks: interpreting Argentine international trade strategies in light of domestic factors

To summarize our conclusions we will first present the defining characteristics of Argentine trade policies and then turn to interpreting them in the light of the domestic attributes just described. Consider first policies toward imports. After some early and failed attempts at trade liberalization, since 1988 tariff reduction has been rapid and across-the-board. Average levels have remained low ever since, except for two short-lived reversals. All sectors suffered the effects of liberalization and some of them (such as producers of capital goods) have experienced almost complete exposure to international competition. Demands for continued protection have been responded through trade relief measures and ad hoc mechanisms.

Although export promotion instruments are horizontal, in practice only certain sectors and firms benefit from them. Export incentives are vulnerable to fiscal and macro-economic constraints (especially exchange rate policy) and to lack of financial assistance. Consequently, public policy commitment with export promotion appears unstable and inconsistent. The lack of coordination among fiscal incentives, financial incentives and trade promotion reveals the absence of a medium-term strategy. The inconsistency of policy signals and programs compromises the ability of non-traditional sectors and smaller firms to focus on foreign market expansion.

Trade negotiation strategies have emphasized subregional integration. As a member of MERCOSUR and following the leadership of a larger partner (Brazil) Argentina partakes in multilateral talks. These strategies have been more stable than export promotion and less ad-hoc than market protection policies. However, the effect of asymmetries in the process of subregional integration, intra-MERCOSUR dissent as to the distribution of benefits and divergence between Argentina's offensive interests and Brazil's defensive concerns have prevented the integration process from moving forward. Yet it is difficult to conceive a negotiation course different to that which Argentina has adopted and maintained.

Structural factors help explain the volatile trade policies characteristic of Argentina over the ISI period. Considering the feeble policy insulation and weak constitutional fetters that the local institutional framework presents, it is as perplexing that Argentine authorities could impose sudden and generalized trade liberalization in the late 1980s, as it is that they have been able to sustain it since. The neutralizing effects of the 1989 crisis (and the signs of instability already apparent in 1987) can probably help to account for the lack or inefficacy of societal resistance to trade reform. However, politically influential and politically salient sectors were able to obtain some level of remedial protection.[46] All of these sectors are import-competing, which is consistent with factor-specific approaches. Incomplete insulation and the relative simplicity and lack of decision-making coordination help to understand the discretional pattern of trade relief.

In spite of its relative institutional weakness, the Argentine public sector succeeded in sustaining its main policy towards imports through time. In line with prevailing scholarly opinion, we believe that the adoption of regional and multilateral commitments locked in the policy orientation set in the late 1980s. It is also possible that the simultaneity of trade liberalization with privatization and internal deregulation offered incumbent authorities the possibility to offer part of the business community with compensations in exchange for abiding to trade liberalization.

It is in those areas where institutional capabilities and policy consistency are most critical that the Argentine public sector reveals its institutional infirmities. Export promotion policies have contributed relatively little to enhance the competitive abilities of exporting sectors and they have been largely ineffective to promote exports from non-traditional sectors and smaller firms (independently of the macro-economic environment). The persistence of some special export promotion regimes (now receding in light of international commitments) also illustrates the inability of local institutions to insulate policy makers from the pressure of politically influential groups or firms.

[46] The automobile sector constitutes a special case, for its promotion seems to reflect a long term commitment of all national administrations.

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