

# Sustaining Trade Reform

## Institutional Lessons from Peru and Argentina

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September 2013



## Abstract

This paper examines trade policies in Peru and Argentina since the reforms of the 1990s. Peru provides a valuable example of sustaining reform. Leaders have used negotiations and other international instruments to disseminate among Peruvians a positive vision of Peru in the international economy and to extend the application of World Trade Organization-based governance principles. Peru has introduced few new restrictions and all of them have been through World Trade Organization-sanctioned policy instruments. Argentina,

by contrast, has introduced multiple restrictions, through procedures that eschew World Trade Organization governance principles. Moreover, leaders there have returned trade politics to the *dependencia* philosophy that sees the international economy as an exploitive environment. The paper brings out the weakness of international obligations to limit Argentina's return to import substitution and the pains at which Peru has gone to maintain the management of its economy within the same rules that Argentina has so easily violated.

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This paper is a product of the Trade and International Integration Team, Development Research Group. It is part of a larger effort by the World Bank to provide open access to its research and make a contribution to development policy discussions around the world. Policy Research Working Papers are also posted on the Web at <http://econ.worldbank.org>. The authors may be contacted at Elías A. Baracat ([eliasbaracat@hotmail.com](mailto:eliasbaracat@hotmail.com)), J. Michael Finger ([Michael.Finger@comcast.net](mailto:Michael.Finger@comcast.net)), Raúl León Thorn ([rleont@speedy.com.pe](mailto:rleont@speedy.com.pe)), Julio J. Nogués ([jnagues@fibertel.com.ar](mailto:jnagues@fibertel.com.ar)).

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# **SUSTAINING TRADE REFORM: INSTITUTIONAL LESSONS FROM PERU AND ARGENTINA**

by

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JEL F13, O19, B52

Key words: Argentina, General Agreement on Tariffs and Trade (GATT), governance, import substitution, institution, institutional economics, Latin America, Peru, politics, World Trade Organization (WTO)

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# Table of Contents

1. Introduction.....	1
Major themes .....	1
Analytical framework .....	1
Layout of the paper .....	2
2. The Evolution of Trade Policy in Peru, 2001-2011 .....	2
Reform that has taken root.....	2
Table 2.1: Main Economic Reforms in Peru since 1990.....	4
Table 2.2: Significant institutional events in Peru’s reforms .....	5
Reform has produced positive results .....	6
Asian economies as example .....	6
INDECOPI and the professionalization of management of pressures for protection.....	7
Double strategy with double objectives .....	7
New government ministry orientated toward integration into the world economy.....	8
Trade agreements enter the arsenal of policy management .....	8
The momentum of the FTA carried beyond its ‘requirements’ .....	9
Continuing use of FTA Negots .....	9
A policy blueprint emerges.....	9
Trade policy evolves.....	10
3. Import Substitution under the WTO: Argentina .....	10
Figure 3.1: Ratio between Argentina’s and Australia’s per capita GDP.....	11
Return to import substitution .....	12
Table 3.1 Import Substitution Policy Timeline.....	13
Return to informal governance of trade controls .....	17
Table 3.2: Trade Control Measures Reported by Global Trade Alert, 2008-2011; Sorted by Formal versus Informal Process for Application/Administration.....	18
Import licenses as import restrictions .....	19
Industry support at high cost.....	19
Export restrictions.....	19
Domestic political support .....	20
WTO discipline.....	20
Retaliation has been more effective discipline.....	21
Reversion to the old policy culture .....	22
4. Argentina and Peru: Different Paths .....	23
The differences .....	23
Accounting for the differences.....	23
5. Conclusions and Sugestions.....	25
More attention to how countries make policy.....	25
6. REFERENCES .....	27

## Summary

Beyond removing restrictions, trade reform in Latin American in the 1980s and 1990s was in significant part an attempt to change the domestic politics of trade and to change the culture of policy management by introducing procedural characteristics that WTO trade remedy rules advance. We examine how trade reform in Peru and Argentina has gone since the reforms of the 1990s.

Peru provides a valuable example of doing this well. Reform leaders have used negotiations and other international instruments to disseminate among Peruvians a positive vision of Peru in the international economy, and to extend the application of WTO-based governance principles. Peru has introduced few new restrictions and all of them have been through WTO-sanctioned policy instruments.

Argentina, on the other hand, has introduced multiple restrictions, through procedures that exchew WTO governance principles. Moreover, leaders there have returned trade politics to the *dependencia* philosophy that sees the international economy as an exploitive environment.

Argentina demonstrates that international commitments, *per se*, will not prevent a government from applying extensive import restrictions. To have commercial value, we conclude, the GATT/WTO principle that members apply only approved methods of trade control must have operational expression in national institutions.

# 1. Introduction

Trade reform in Latin American in the 1980s and 1990s was in significant part a reform of policy-making institutions. A previous study, *Fighting Fire with Fire*,<sup>1</sup> documented the extensive reforms that were put in place in seven Latin American countries and examined the institutional structures governments established to manage domestic pressures for protection. The institutional changes reflected two overlapping objectives: (a) to overcome the advantage that protection seekers enjoyed in then-existing procedures and (b) to change the culture of policy making from one based on long-standing relationships to one based on objective, participatory and transparent assessment of economic costs and benefits.<sup>2</sup> An aim of these institutional reforms was to avoid the return to protectionism that had followed past reforms.

This follow-up study looks at two countries, Peru and Argentina. Leaders in Argentina have chosen to return to the protectionist policies that have prevailed over most of the country's modern economic history as well as to the old methods of forming and administering policy. Leaders in Peru, over several changes of president, have chosen to continue with reforms intended to integrate the Peruvian economy into the international economy and to upgrade policy processes – to continue Peru's break from its history of protectionism and centralized management.

## MAJOR THEMES

We seek to draw lessons that will be useful to leaders wanting to maintain an open trade regime. The Peru study focuses on how reform leaders in that country have reinforced the evolution of a new management culture and how they have disseminated widely in Peruvian society a positive vision of Peru in the international economy. The Argentina study documents the country's return to ad hoc procedures and demonstrates that the acceptance of GATT/WTO disciplines over trade policies has not prevented subsequent governments from returning to the policies and procedures that the reform government struggled to eliminate. Together, the studies demonstrate that liberalization is at its core a national decision. Subjugating the domestic politics of trade to WTO rules is not what works. Successful reformers have used participation in the WTO system as part of the transformation of domestic trade politics.

## ANALYTICAL FRAMEWORK

This essay differs in several ways from the forms to which a generation of trade economists have been socialized. For one, it accepts policy as decisions made by sentient beings and not as the inevitable result of the insentient “parameters” on which the researcher builds her model. Our objective is not to explain why Argentine leaders chose to revert to restrictive trade policies, but to show that they did so by reverting to the “off-the-books,” “politics-as-usual” forms of policy-making that the adoption of GATT/WTO standards by previous leadership tried to eliminate.

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<sup>1</sup>Finger and Nogués 2006.

<sup>2</sup> More generally, several Latin American governments attempted to move governance away from *cortoplacismo* toward a greater degree of *previsibilidad*; stability of expectations about the rules of the game and about agreed procedures for changing these. (Lowenthal 2011) Among regional leaders, Alejandro Foxley, Chile's former Minister of Economy and of Foreign Affairs explains such a vision in his address to the Conference “Gobernabilidad y Desarrollo 2009”(Asunción, Paraguay, 2009), at <http://www.hacienda.gov.py/web-hacienda/pub003.pdf>.

Likewise, our focus is not on why Peruvian leaders chose reform policies, but on how they introduced those policies into the Peruvian economy and into Peruvian culture.

We did not impose a common template on the country studies. We want to bring out what we can learn from each experience individually as well as from comparisons of the two. In addition, we do not aspire to provide economic guidelines for policymakers. One of the lessons we have learned is that for reform leaders in Peru the Asian example served less as a template than as a means of communicating to the Peruvian people what the reforms and their results would be. We found that the challenge to reform leaders was less to learn what to do than to figure out how to do it in Peru. As to Argentina, our objective is to remind that what current leaders are doing is not novel, that it is a continuation of the practices and policies that have contributed to questionable governance and to the Argentine economy's underperformance for almost a century.

#### **LAYOUT OF THE PAPER**

The two sections that follow (Sections 2 and 3) analyze the management of trade policy in Peru and in Argentina over roughly the decade 2001-2011. These studies cover more or less what has happened since the reforms examined in Fighting Fire with Fire. Section 4 compares the two experiences while Section 5, brings forward key findings and offers suggestions for research that might help the international community to continue to support trade policy reform.

## **2. The Evolution of Trade Policy in Peru, 2001-2011<sup>3</sup>**

Alberto Fujimori became president of Peru in 1990 in the context of one of the most severe economic and political crises in the country's modern history. Peru was experiencing hyperinflation. Domestic production had fallen by 20 percent in the two preceding years. Through taxation and ownership of companies the government controlled more than half of GDP, yet government provision of education, police, sanitation, etc. had been severely reduced because of fiscal impoverishment, corruption and growing terrorism. The import regime included a high tariff (average rate, 66 percent) supplemented by import bans on a number of products. These elements, together with a number of tariff exemptions, created extreme positive and negative levels of effective protection.

#### **REFORM THAT HAS TAKEN ROOT**

These conditions provided an entry point for reform. During the electoral campaign of 1990, candidate Mario Vargas Llosa's liberal message was no longer regarded as a rationalization for big business and became instead a legitimate argument for the national interest. Though Fujimori was not elected on a liberal platform, his lack of political debts, his practical way of seeing things and his sensing of public support for change led him into the liberal path.<sup>4</sup>

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<sup>3</sup> The analysis of Peru's reforms owes much to the willingness of Javier Illescas, Eduardo Ferreyros, Jaime Thorne, Mercedes Aráoz, Fernando Zavala, Marisol Guiulfo, Julio Velarde, Renzo Rossini, and Luis Alberto León to share their experiences with the authors.

<sup>4</sup> This was not the first attempt at liberalization in Peru. Between 1980 and 1985, President Belaunde Terry implemented a comprehensive reform program moving away from the centralized economic management that previous military regimes had implemented. This meaningful liberalization came to an end during Alan Garcia's first term in office, 1985-1990. Nogués 1986.

Opposition in the Congress to his proposed reforms led to Fujimori closing the Congress, a move that, at the time, was supported by the Peruvian public. Thus Peru's reforms began with widespread public support, but under an autocratic government.

Economic disaster has in many countries been an entry point for reform but often, as in Argentina, abandoned shortly after. Peru is emerging as one of the exceptions. The reforms have brought economic success, and this success has brought forth support for further reform.<sup>5</sup> In 2001, when Alejandro Toledo was elected President he was heavily pressed by the population, civil organizations, business and trade unions to select a Minister of Economy and a Central Bank Chairman with high professional reputations; people of sufficient stature that they would guarantee the continuity of the ongoing reforms. Toledo's crucial decision to do so reignited the dynamic forces towards openness and competition and kept the liberalization moving forward. (One astute Peruvian observed, "Toledo had not many alternatives. It was either push the correct/publicly-acclaimed green button or the disaster red button."<sup>6</sup>) Upon being elected in 2006, Alan Garcia Pérez made a similar decision, even though in his earlier term as President he, like Toledo, had been critical of the opening of the Peruvian economy.

Tables 2.1 and 2.2 provide summaries of the major economic reforms introduced by Peru and of the institutional events through which the reforms were implemented and sustained.

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<sup>5</sup> Fujimori fled to Japan in 2000 under suspicion of corruption and human rights abuses. Later arrested in Chile, he was extradited to Peru, convicted of human rights violations and other crimes, sentenced to 25 years in prison. The economic policy line he introduced has continued.

<sup>6</sup> The interviewee requested anonymity.

**Table 2.1: Main Economic Reforms in Peru since 1990**

Area of reform	Date	Reforms initiated
Stabilization	1990-93	Price subsidies eliminated Unified floating exchange rate Monetary expansion reduced New Central Bank Law
Tax	1990-92	Tax structure reduced and simplified
Foreign trade	1990-92	Tariff levels and dispersion reduced Prohibitions, paratariff measures, and state import monopolies eliminated
Financial	1990-96	Capital flows and foreign currencies freed Stock exchange reforms launched New law for banks, creation of Banking and Insurance Superintendency Deposit insurance fund created First tier banking prohibited for the state Private pension system created
Privatization	1992-96	COPRI <sup>a</sup> and CEPRI <sup>b</sup> created Auctions of publicly-owned enterprises launched Autonomous regulating entities and INDECOPI created
Labor	1990-97	Labor market deregulated and flexibilized Labor stability partially eliminated, including a change in the constitution Payroll taxes reduced
State deregulation and reduction	1990-96	Regulations and processes streamlined Number of state workers reduced
Social	1991-98	Social programs created Poverty targeted

Source: Webb, Camminati and Leon Thorne, 2006, p. 251.

a. COPRI = Private Investment Promotion Commission

b. CDEPRIs = Special Privatization Committees

**Table 2.2: Significant institutional events in Peru's reforms**

Event	Date	Vision/Strategy
Andean Community	From 1969	Without Peru formally leaving the Andean Agreement, Peru shifted from its focus on regional market-sharing (isolated from internal as well as from external competition) to a strategy of openness into competitive markets.
United States Andean Trade Preference Act	Peru participation first signed by Pres. Fujimori in 1991	Renewal negotiations every three years provided experience, confidence dealing within the legalistic approach of the US, Renegotiation in 2001 became a focal point for reorientation of trade strategy, use of trade negotiations as a part of policy reform, reorganization of trade ministry toward the global economy.
INDECOPI	Created Nov. 1992	Introduced objective, accountable and transparent regulatory procedures to competition policy, consumer protection, bankruptcy proceedings, technical and commercial standards, trade remedy instruments, intellectual property A major part of the effort to change the culture of economic policy management.
Asia-Pacific Economic Cooperation (APEC)	Peru joined in 1998	An early step in Peru's return to the international financial orbit after the crisis of the 1980s, Used by the government to build relationships of both the Peruvian government and business with Asian counterparts
MEF study comparing Peru's progress with that of several Asian countries	2001	Used to advance a positive view of integration into the global economy, to support creation of a reoriented trade ministry, MINCETUR, A vehicle for communicating with the public as to the content and the outcome of reforms.
Formalization of trade strategy in the MEF	2000-03	From openness as reaction – the removal of previous, unsuccessful, policies – to openness as a positive strategy and view of Peru's place in the world, not rightist policy, but policy for all the people - Reduction of tariff level and dispersion, - Attention to transparency of procedures
MINCETUR created, replaced the old Ministry of Industry, Tourism, and Commercial Negotiations	2002	Separated trade from a ministry previously responsible for domestic production/support, Allowed a reorientation from constituencies focused on the local market toward sectors/interests oriented toward international markets
Peru-USA Free Trade Agreement	Negotiated 2003-06, signed April 2006, Peru ratified June 2006, US ratified December 2007	First trade agreement negotiated by Peru with a large economy, provided template for later negotiations with China and other countries.
The 100 decrees	March-June 2008	Second-generation reforms, including legislative decrees on matters not directly demanded the Peru-US FTA, but provided political impetus by the agreement.
MEF Ministerial Resolution, <i>Tariff Policy Guidelines</i>	2006	MEF elaborates a vision of the economic path the country should follow; a comprehensive document establishing a reform tariff policy as part of its overall strategy

Source: Authors' elaboration.

## **REFORM HAS PRODUCED POSITIVE RESULTS**

The reform period 1990-2011 was a highly successful period of economic and social development in Peru. According to statistics of the Peruvian Central Bank, exports multiplied by fourteen, international reserves multiplied by thirty-seven. Inflation been low (average below 4% in the last decade), public external debt is only 11.4 percent of GDP today and government income has increased from 8.1% to 21% of GDP.

Social indicators show similar progress. A recent study by Richard Webb, Diether Beuermann, and Carla Revilla (2011) researching 200 poor rural districts finds that growth in rural capital income in 2000-2010 was 6.6% per year compared to an average of 0.7% in 1900-2000. Travel hours to the nearest city decreased from 14 in 2001 to 5 in 2011 due to improvements in the national road network. In return daily wages doubled and house value tripled together with a reduction of the indicators of infant mortality and extreme poverty of 50% in the same period.

## **ASIAN ECONOMIES AS EXAMPLE**

Trade reform began, on the negative side from the recognized need to move away from disaster of the old policy regime. On the positive side, it began from the Asian example. The Asian example provided a general sense of what to do, but perhaps more important, it buoyed Peruvian self-confidence that they could succeed as part of the global economy. Earlier attempts at ‘economic integration,’ had been in reality extensions of the import substitution regime. The Community of Andean Nations (CAN) was a plan for a negotiated division of which members would produce which products for the entire community; with guarantees against competition from outside the CAN, or even from other CAN producers.<sup>7</sup> This time Peruvians began to believe they could hold their own with the world.

The successes of Asian countries have had a considerable influence on Peru. Some say that in 1990 Fujimori’s Japanese background contributed significantly to his election. As President, Fujimori paid strong attention to the relationships with the Pacific Basin economies. At his initiative the government used participation in APEC (Asia-Pacific Economic Cooperation) meetings to provide Peruvian business leaders opportunities to network with Asia business leaders.

While the Asian example was in the background from the beginning, in 2001 the Ministerio de Economía y Finanzas (MEF)<sup>8</sup> prepared a study that compared Peru’s progress with that of several Asian countries, particularly Korea and Taiwan, China. In 1970 these countries had per capita incomes similar to that of Peru, but over the following three decades, theirs had increased much more than Peru’s. The study was accepted among Peruvian civil society as well as in the business community as demonstrating that a country starting from the position Peru then occupied could succeed. It became a major part in the Toledo government’s campaign to win authorization from

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<sup>7</sup> The plan had been minimally implemented.

<sup>8</sup> In Peru, the Ministerio de Economía y Finanzas (MEF) is responsible for developing the overall objectives of economic policy and for guiding the translation of those objectives into policies.

the Congress to create a Trade Ministry that would bring new focus and dynamism to the integration of Peru into the global economy.

### **INDECOPI AND THE PROFESSIONALIZATION OF MANAGEMENT OF PRESSURES FOR PROTECTION**

An important and early part of trade policy reform was the installation of GATT/WTO-sanctioned trade remedies (safeguards, antidumping, countervailing duties) as the mechanisms through which the government would formalize management of domestic pressures for protection. Effective administration of the new laws and procedures would require more than technical expertise, it would also require independence from political power. Moreover, the culture of decision making would have to change from one in which decisions were based on long-standing relationships to one in which decisions were based on the facts of economic potential.

To this end, the government (in 1992, when Fujimori was president) created by law the Instituto Nacional de Defensa de la Competencia y de la Protección de la Propiedad Intelectual, INDECOPI (translation: National Institute for the Defense of Competition and the Protection of Intellectual Property) INDECOPI's overall responsibility is to maintain a competitive market economy in Peru. Organizationally it is a collection of autonomous commissions that provide the functional and regulatory frameworks for competition policy, intellectual property, small business development and other parts of the infrastructure of a market economy. One of the commissions, the Antidumping and Countervailing Measures Commission, is responsible for antidumping and countervailing duty investigations and for the imposition of measures. This Commission is also the investigating authority for safeguard cases; the final decision on such cases being made by a multi-sector commission formed by several ministers.<sup>9</sup>

Peru has been one of the most successful countries in the world at confining protectionist pressures within formal trade remedy mechanisms and in maintaining discipline over new restrictions. Peru has during the current recession imposed few trade controls (see Table 3.2, below) and all that have been imposed have been INDECOPI-administered antidumping or countervailing measures.

### **DOUBLE STRATEGY WITH DOUBLE OBJECTIVES**

Government leaders recognized that they would not succeed in such a purpose without the participation and the conviction of business and civil society. As they moved toward negotiation of a trade agreement with the United States, they prepared a dual agenda, one for the external front and one for the domestic. The agendas would share several objectives; to make the Peruvian economy more productive, to build up the image of Peru and Peruvians as members of the international community – to put Peru and Peruvians on the world's economic and political radar – and to expand within Peru the confidence that they belonged there.

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<sup>9</sup> Webb, Camminati and León Thorne (2006) provide a description of INDECOPI's structure and functioning as well as of antidumping and safeguard procedures.

The government was diligent to enlist the participation of all sectors of Peruvian society; organizing over 600 events with business associations, labor unions, chambers of commerce, universities, professional associations, agricultural communities, fishermen, etc. Continuing input was organized through 21 advisory groups, one for each of the areas of negotiation.

Reform leaders with whom we spoke emphasized that in these meetings and other contacts they put great emphasis on hearing what the business community had to say and including them in government activities and in all negotiations. This, they explained, was also part of the Asian example.

#### **NEW GOVERNMENT MINISTRY ORIENTATED TOWARD INTEGRATION INTO THE WORLD ECONOMY**

These negotiations provided an opportunity for reform leaders to press for a major change within the government: to create a new Ministerio de Comercio Exterior y Turismo (MINCETUR) to replace the previous Ministerio de Industria, Turismo y Negociaciones Comerciales (MITINCI). This change allowed the creation of a unit focused on negotiations with the United States and later with other countries. Of perhaps even greater importance, the change facilitated a reorientation of trade policy toward Peruvian companies enthusiastic to participate in the modern international economy. MITINCI had been oriented toward Peruvian businesses more concerned to avoid exposure to international competition, its negotiating experience primarily with the regional-import-substitution orientation of the Andean Community.

#### **TRADE AGREEMENTS ENTER THE ARSENAL OF POLICY MANAGEMENT**

There were some early but timid steps toward improving access to foreign markets but only in 2001 would negotiations with other countries become an important active part of the emerging open strategy.<sup>10</sup> By then the vision of Peru as a successful part of the world economy had spread nationally; that is why President Toledo chose to proceed as he did. This and the accumulating success and confidence laid the base for reform leaders to recognize and to seize another opportunity.

The ATPA, the Andean Trade Preference Act of the United States, provided a positive spark to Peru's vision of itself in the world economy. This law, passed by the US Congress in 1991, provided for the United States to reduce its tariffs on imports from Peru and other Andean countries in exchange for their cooperation in a fight against drugs. As such, it demanded minimal change of Peru's trade policies, but it provided an opportunity for Peruvian companies to do business in the United States.

The existence of the ATPA program brought the Peruvian government to see the potential for something more. The need, however, to renew the agreement every three years and its initial exclusion of labor-intensive industries like textiles lessened the usefulness of the program as an incentive to investment in the export sector. When the

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<sup>10</sup> Peru accepted the Uruguay Round Agreements in 1995, but did not attempt to use the Uruguay Round negotiations as a way to open markets of particular interest to Peru.

ATPA came up for renewal in 2001, a strengthened export sector was pushing for more market access abroad and a clearer vision of Peru's trade strategy was emerging. Their self-confidence buoyed by the negotiation of ATPA extensions, Peruvian officials decided to go for a more ambitious agreement. The United States first saw Peru as a partner in the war against drugs, Peruvian leaders would exploit this attention to create for itself a role as economic partner.

#### **THE MOMENTUM OF THE FTA CARRIED BEYOND ITS 'REQUIREMENTS'**

No less important, reform leaders used the positive image created by the negotiations to move reform beyond the 'demands' of the agreement. Between March and June 2008, the government submitted more than 100 Supreme Decrees to the Congress for their approval. These included not only the subject matters required to meet the terms of the agreement, but also subject matters that constituted a kind of second-generation reform.

#### **CONTINUING USE OF FTA NEGOTIATIONS**

Since completing the FTA with the United States in April 2005, Peru has also negotiated and signed agreements with Chile, Singapore, Canada, China, the European Free Trade Association, Korea, Thailand, Japan, Panama, Costa Rica and the European Union.

Without belittling the value of these negotiations for building commercial relationships, we want to point out that their role has been much more. For one thing, the negotiations have been a vehicle through which successive governments have kept before the Peruvian public the positive side of integration into the world economy. President Alan Garcia often used the slogan, "montarse a la ola del crecimiento" – climb up onto the wave of growth – to rally Peruvians to the spirit of attracting investment from and competing in the markets of the strongest economies in the world (Garcia 2011).

Targeting specific and prominent countries has provided identity for the new vision that participation in WTO negotiations could not provide. Using FTA negotiations has allowed Peru to establish its own identity among trading nations, it has allowed Peru greater influence over the pace of liberalization than WTO negotiations would allow. Not to be overlooked, FTA negotiations have brought forward in the public mind that Peruvian leaders have been shapers of the accords. Large countries such as the United States, India and Brazil can use leadership in WTO negotiations as part of the management of their domestic politics of trade policy, but their doing so takes away the same opportunity for smaller countries.

#### **A POLICY BLUEPRINT EMERGES**

Peruvian trade reform began with rejection of policies that had obviously failed; plus the confidence that Peru could achieve what a number of Asian countries had achieved. The reform developed concrete elements as policy entrepreneurs created and built on opportunities. In time, reform leaders would turn their attention to elaborating an overall philosophy for trade reform, this brought forward in 2005 in an MEF resolution.

This Ministerial Resolution, titled "Guidelines for Tariff Policy," outlines in broad scope the country's development policy, with particular focus on policies related to integration into the world economy.

As to tariff policy, the Resolution provides a rationale for unilateral liberalization. It takes up the tariff as a tax imposed only on imported products, and thereby imparting a "protective bias" and indicates that policy management should recognize a balance

among the impact of a policy on output, employment and revenue and its impact on efficiency in resource allocation and welfare of the population.

*From a standpoint of economic efficiency, the reduction of tariffs promotes improvements in international competitiveness, productivity of businesses and improvements of domestically produced products. All of this enables higher incomes and greater customer satisfaction. Higher tariffs isolate an economy from international competition and provide only a few sectors a boost at the expense of the economy's overall efficiency.*

*Hence policy, particularly for a country with no power to influence international prices, should be to reduce tariffs and thereby their distorting effect on the efficiency of resource allocation. Resource allocation should be by market criteria rather than by the creation of artificial advantages.*

*This argument is equally valid against congressional bills that seek to promote sectors through tariff exemptions. (MEF 2005, 2-3)*

This has remained the basic document of international trade policies through the two changes of government that have occurred since it was first promulgated.

#### **TRADE POLICY EVOLVES**

*Long-run economic change is the cumulative consequence of innumerable short-run decisions by political and economic entrepreneurs. (North, 1990, p. 104)*

Peru's example shows that increased economic prosperity is not a one-time change to a different set of policy parameters. It is the cumulative consequence of many decisions guided by an ensemble of examples, objectives and values that bring better economics into the institutional structure of the economy – each of these decisions supported by the confidence that the overall program will succeed. In the case of Peru, the institutions and the individuals responsible for developing policy have been receptive to good economics, and responsive to it.

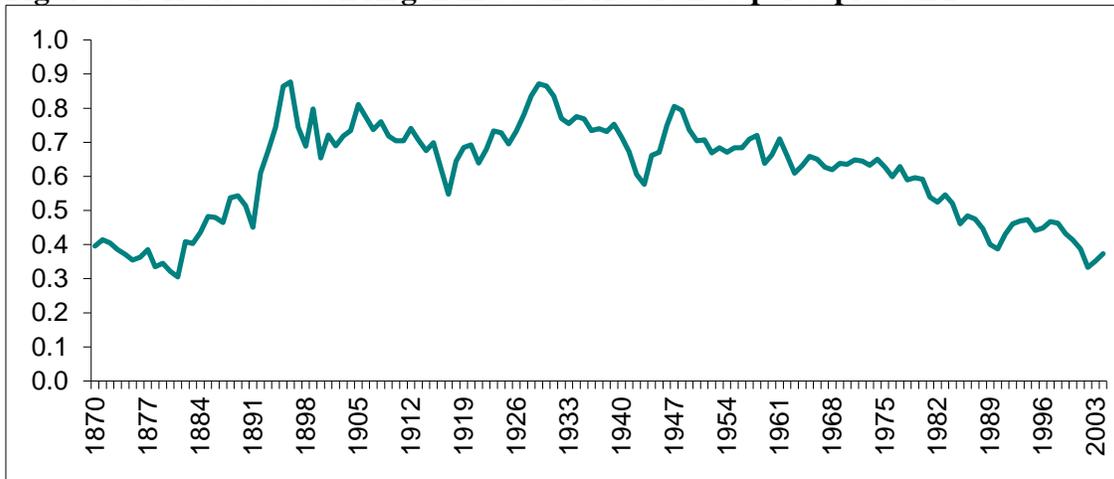
### **3. Import Substitution under the WTO: Argentina**

Except for a brief period of liberalization in the 1990s, Argentina for the past eighty or so years has been a relatively closed economy. Over that period the Argentine economy has performed poorly in comparison with countries with similar resource endowments that have adopted open policies. In 1930, Argentina's per capita income was approximately 85 percent of Australia's but since Australia shifted to an open trade strategy the ratio has fallen to 30 percent. Moreover, Argentina's protectionist regime has not provided a redistribution of income toward workers. Since 1960 the ratio of wages to GDP per worker has remained more or less constant in Australia, but by 2004 had fallen by some 40 percent in Argentina.<sup>11</sup>

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<sup>11</sup>Nogués 2011a provides a documented analysis of the role of commercial policies in explaining Argentina's long-run and sustained process of relative decline.

**Figure 3.1: Ratio between Argentina's and Australia's per capita GDP**



Source: Author's elaboration based on Maddison (2007).

In the 1990s the government in power sought to implement an open competitive market with marked reduction of governmental intervention (Nogués and Baracat, 2006). Major sectors of the economy that were dominated by public enterprises were privatized and foreign investment was put on an equal footing with domestic investment. Tariff rates that had averaged 40 percent in the mid-1980s fell to an average of 14 percent by the mid-1990s. On imports from Mercosur partners, most rates fell to zero. This liberalization was accompanied by the introduction of disciplined mechanisms for managing pressures for protection: GATT/WTO-sanctioned antidumping and safeguard mechanisms.

This liberalization was however short-lived, and starting with the “corralito”<sup>12</sup> in late 2001, it has been reversed by the governments in power to policy profile that has been dominant over the past 8 or 9 decades:

- An announced return to an import substitution strategy,
- Reversion to instruments of trade control that lack the transparency and accountability the WTO system attempts to foster. The procedural/governance regulations introduced in the 1990s have been displaced by non-transparent and discretionally implemented restrictions mechanisms.
- Widespread import controls; ultimately (early 2012) as the peso became increasingly overvalued, the requirement of approval by the government of each request for the purchase of foreign exchange
- Export-balancing or countertrade requirements as a condition for importing,
- Quantitative export restrictions and high export taxes on cereal and bovine meat exports,
- Targeted industry support measures.

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<sup>12</sup>The term *corralito* refers to emergency measures put in place near the end of 2001 to stop a bank run. The government severely limited withdrawals from Argentine peso accounts and completely prohibited withdrawals from U.S. dollar-denominated accounts.

### **RETURN TO IMPORT SUBSTITUTION**

The Argentine government has publicly acknowledged a return to an import substitution trade strategy. Table 3.1 provides extended documentation of Argentina's return to import substitution policies and to off-the-books forms of policy formation and administration; e.g., President Kirchner's insistence that "*we must deepen import substitution*" (Losauo 2011).

The 'new' import substitution rationale repeats much of the rhetoric of past decades. Protecting domestic employment is the major political rationale; but there is also emphasis on the necessity to deal with "unfair" foreign competition, this usually in reference to imports from Asia. The rhetoric also assures that industry efficiency will be comparable to that achieved in major economies and that domestic producers provided a sanctuary home market will also compete well in export markets.

**Table 3.1 Import Substitution Policy Timeline**

<b>Date</b>	<b>Policy actions and Authorities' declarations</b>
December 23, 2003	<p>Resolution 220/2003-SICPME initiated the system on import licensing for bicycles. This event was more or less the commencement of Argentina's new protectionism. The resolution also created the administrative procedures for enforcing the restrictions.</p> <p><i>Source:</i> InfoLEG database website at <a href="http://infoleg.mecon.gov.ar/infolegInternet/anexos/90000-94999/91398/norma.htm">http://infoleg.mecon.gov.ar/infolegInternet/anexos/90000-94999/91398/norma.htm</a>.</p>
August 11, 2005	<p>Argentina limits entry points for certain goods. By virtue of General Resolution 1924 of August 11, 2005, and with the purpose of strengthening customs controls, the Federal Public Revenue Administration limited the points of entry for certain categories of goods, including textiles, shoes and toys.</p> <p>On January 29, 2010, the General Customs Division passed new legislation, adding several new tariff positions to the regime. (Only tariff positions added in this new legislation have been included in this reported measure.)</p> <p><i>Source:</i> Global Trade Alert 2010b.</p>
August 17, 2007	<p>President Cristina Fernández de Kirchner and Minister of Economy Miguel Peirano announced measures to restrict imports, especially those from East Asia. The restrictions covered textiles, footwear, toys, leather goods, and computers. The measures applied included minimum values to collect duties, specialized customs offices designation for certain products, new technical standards for certain products, expansion of the coverage of the import licensing system, and increased customs checks on products originating in certain Asian countries.</p> <p>Shortly thereafter, China banned soybean imports from Argentina.</p> <p><i>Sources:</i> ADN Mundo 2007; iProfessional.com 2007.</p>
November 2, 2009	<p>Law 26,457, enacted on December 10, 2008, created an incentive scheme for local investment in manufacturing motorcycles and motorcycle parts. The scheme includes new restrictions on imports of assembled vehicles and a tax deduction based on purchases of parts from local manufacturers. Débora Giorgi, the minister of industry and tourism, while speaking before the Association of Motorcycle Manufacturers, announced that to promote import substitution the law would encourage domestic production of motorcycles and motorcycle parts, the expectation being that within five years imported parts would constitute no more than 30 percent of the production value of a unit.</p> <p><i>Sources:</i> <i>Ámbito Financiero</i> at <a href="http://190.224.163.233/ambitoweb/diario/2009/1126/texto/Not_20091126_495325.rtf">http://190.224.163.233/ambitoweb/diario/2009/1126/texto/Not_20091126_495325.rtf</a>; Río Negro 2012.</p>
November 3, 2009	<p>Law 26,393, enacted on June 25, 2008, created a system of bonuses payable to assemblers of vehicles, internal combustion engines, gearboxes, and axles that purchase locally made parts.</p> <p><i>Source:</i> Honorable Chamber of Deputies website at</p>

[http://www.hcdn.gov.ar/leyes/buscarNormasXNumLey.jsp?id\\_norma=40118](http://www.hcdn.gov.ar/leyes/buscarNormasXNumLey.jsp?id_norma=40118).

- February 5, 2010 On February 5, 2010, the government passed implementing legislation that put into effect the Local Investment Incentives Regime for Motorcycles and Motorcycle Parts Manufacturing, originally established in 2009 by Law 26,457 and Decree 1857/2009. Under the regime, local producers of motorcycles and certain motorcycle parts will receive two types of benefits: (a) reductions of duties levied on imported inputs, ranging from 20 to 60 percent of current import duty rates, and (b) tax credits on purchases of locally produced inputs. To be eligible for the benefits, applicants have to pledge investments of at least US\$1 million in real estate, facilities, machinery, and development of local suppliers. Furthermore, to continue to be eligible for the benefit, they have to gradually reduce the foreign content of their output, with a view of reaching a 30 percent ceiling in foreign content by 2015. *Source:* Global Trade Alert 2010a.
- May 2010 At the 15th Trans-Andes Encuentro Empresarial, a Chilean spokesperson commented that while Argentina is a large market for food, Argentine government policies have been creating difficulties regarding the sale of imported food items. Managers of supermarket chains, supermarkets, and other retail stores have received verbal communication from the secretary of commerce that they should stop importing, among other items, canned corn and tomatoes from Brazil, Swiss chocolates, Greek peaches, and nuts and several Chilean products that are processed in the local market. The secretary of commerce has instructed the National Food Institute, which formerly issued certificates of free movement of goods, to redirect all requests for such certificates to the Secretariat of Commerce. *Source:* Boeninger 2010.
- January 21, 2011 In a presentation announcing the regime for promotion of modems and tablets in Tierra del Fuego, the Minister of Industry, stated, “Companies’ interest in manufacturing in Tierra del Fuego clearly indicates that we are on the path to a national electronics industry. We will continue to promote this strategic sector. We aim to replace imports of high-technology goods and generate new jobs.” *Source:* Ministry of Industry 2011a.
- February 22, 2011 The Minister of Industry, said that “the changing economic and political paradigm that began in 2003 continues to ensure historical rates of growth with social inclusion.” She reiterated the importance of continuing to preserve the domestic market for domestic production. “The import substitution we are encouraging is a cornerstone for the growth of our economy ... so we have extended the list of products on which import licensing is applied.” *Source:* Ministry of Industry 2011c.
- February 25, 2011 The Ministers of Economy and Industry met with 300 entrepreneurs from all sectors of the country, noting that the government “applies trade administration as a way to guide import substitution and generate more

production and jobs in Argentina.” They urged sectors that import products covered by the import licensing system to invest in job creation in Argentina, pointing out that the sectors would be monitored as to the quantity, the quality, and the prices of the products they supplied to the Argentine market.

*Source:* Ministry of Industry 2011b.

March 10, 2011

The Ministry of Industry announced that imports of cars and inputs used by local car producers will be limited to the value of local production that they export. The restriction is aimed at reducing the increasing trade deficit in the sector. Imports originating in MERCOSUR and Mexico will be exempt from the restriction.

The measure was announced during a meeting of government officers with top representatives of the automotive industry and will not be laid down in any regulation or written instrument other than the meeting’s press release.

To obtain the necessary import permits, car producers will have to submit a sworn statement in which they set forth their exports plans and get the approval of the Ministry of Industry.

By April 2011, most car producers, including Volkswagen, Mercedes-Benz, Porsche, PSA Peugeot-Citröen, and Alfa Romeo had concluded agreements with the government in which they committed to reduce their trade deficits by balancing exports and imports. Firms that do not have local car production undertook to export goods other than cars or auto parts. Such was the case of Alfa Romeo and Porsche, which pledged to export biofuel and wines, respectively.

*Source:* Global Trade Alert 2011a.

May 3, 2011

On March 10, 2011, the Ministry of Industry adopted a verbal measure whereby imports of cars and inputs used by local car producers would be limited to the value of local production that they export. Starting on May 3, 2011, local media reported that similar restrictions were being extended to the pharmaceutical industry. As in the case of the automotive industry, local suppliers of pharmaceutical products were required to submit deficit reduction plans as a condition to obtaining the necessary import permits. To prevent supply shortages in the local market, only locally produced medicines are subject to the measure.

*Source:* Global Trade Alert 2011b.

June 22, 2011

In opening the forum for the value chain of textiles and apparel (part of Argentina’s Strategic Plan 2020), the Minister of Industry, declared that “we will continue to have a strong domestic market, protected against unfair competition.” She elaborated that restrictions to dampen imports have boosted local textile production, and the challenge now is to support higher investment to further increased local production and reduction of the sectoral trade deficit.

*Source:* Secretariat of Public Communication 2011.

July 30, 2011

On March 10, 2011, the government started to adopt a series of verbal measures aimed at balancing imports and exports in certain sectors of the

economy. Importers in these designated sectors are required to export an amount of local production equal to the value they import. The policy was first applied to car producers and was then extended to the pharmaceutical industry.

By the end of July 2011, media reported that similar restrictions were also applied to refrigerators, washing machines, cookers, and toys.

*Source:* Global Trade Alert 2011c.

November  
29, 2011

“Not one nail imported, if possible,” said President Cristina Fernández de Kirchner, addressing the Chamber of Construction. She stressed the need to strengthen import substitution and to lower input costs so as to improve the trade balance and create more employment in the country.

Speaking to *Ultimas Noticias*, Gabriel Murara, the vice president of the Confederation of Industry of Uruguay, which is a member country of MERCOSUR, admitted concerns about this statement, adding that he saw no quick exit from problems with Argentina.

*Source:* Delletore 2011.

March 22,  
2012

The Minister of Industry, warned agricultural machinery manufacturers that to do business in the Argentine market that they must incorporate more parts produced in Argentina. “The policy is one of carrot and stick; companies that use domestic demand must generate Argentine employment.”

The Minister set a target of 50 percent local value added for the industry, and wants to see the sector reverse the trade deficit of Arg\$450 million recorded in 2010. Companies such as Fiat, Case New Holland, John Deere, Pauny-Stara, Agco, and Claas have signed agreements with the government to adapt to the new policy of import substitution and countertrade.

*Sources:* Infocampo 2012; Ministry of Industry 2012.

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## **RETURN TO INFORMAL GOVERNANCE OF TRADE CONTROLS**

Table 3.2 reports the Global Trade Alert (GTA) tabulation of trade restrictions and trade-affecting industry support measures. The GTA, a project supported by the World Bank and other organizations, is motivated by the concern that the Great Recession might bring a resurgence of trade restrictions. In addition to including all measures for which the WTO Agreements requires notification, GTA covers other measures (some tailored perhaps to elude WTO restrictions) reported by news media, as well as by importers and exporters.<sup>13</sup>

The table documents not only that Argentina has applied a number of trade control measures, it also documents that the procedural reforms of the 1990s, to a large extent, have been put aside. Sixty percent of the import controls by Argentina have been measures that the Global Trade Alert classifies as “non-tariff barriers (not otherwise specified)” and other measures not put in place through formal procedures. Moreover, procedures for antidumping and safeguards – classified in the table as “formal” – have been made less inclusive of stakeholders, for example public hearings have been eliminated from the proceedings through which the Foreign Trade Commission (CNCE, Comisión Nacional de Comercio Exterior) conducts these investigations.<sup>14</sup>

The import restrictions applied have taken many forms: unexplained delays in release from customs, additional documentation/process requirements, non-responses and delayed responses to requests for import licenses, lack of transparency in the process by which decisions are taken, control of technical regulations, volatility in application of standards. For example, in September 2011 several Argentine publishers were not able to obtain the release from customs of almost 2 million books. Many of these books had been written and edited in Argentina, but shipped outside for printing. In separate meetings with government officials, each publishing company was told to provide a plan on how it would in the future have its printing done in Argentina, and how it would change its product lines in instances in which specialized printing was not available domestically. Table 3.1 provides other examples.

A common element in the actions reported is that the eventual release of imports depended on reaching agreement with the government on commitments to countertrade, to substitute in the future domestic products for previously imported ones and sometimes to make investment in domestic facilities.

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<sup>13</sup> Here, the contribution of investigative journalism to alert citizens to policies in place, their costs and who is profiting from them has been an important part of trade liberalization. We have found however only one analysis of their role, McCarthy 2000, who examines their input in Australia.

<sup>14</sup> “Tariff changes,” likewise classified for the table as “formal” procedures, may not be made through formal processes. Dantas (2012) explained that neither Argentina or Brazil have established participatory procedures for the tariff changes they have made under Mercosur’s allowed flexibilities.

**Table 3.2: Trade Control Measures Reported by Global Trade Alert, 2008-2011;  
Sorted by Formal versus Informal Process for Application/Administration**

Country	PERCENTAGE OF IMPORT CONTROL MEASURES		NUMBERS			
	Formal Process	Informal Process	Import Control Measures – Formal and Informal	Export Support Measures	Export Restriction Measures	Support Measure for Domestic Production
Argentina	40	60	108	1	7	10
Indonesia	40	60	20	0	5	7
Ukraine	56	44	9	0	2	3
Thailand	60	40	5	1	1	0
Japan	64	36	11	8	1	7
China	67	33	46	7	10	11
United States of America	76	24	17	2	0	13
Mexico	85	15	13	0	0	0
Russian Federation	85	15	68	3	13	61
India	86	14	50	13	10	2
South Africa	90	10	20	0	0	4
Brazil	91	9	46	8	1	6
European Communities	94	6	32	4	1	1
Turkey	100	0	11	0	0	1
Viet Nam	100	0	8	1	3	0
Peru	100	0	7	0	0	0
Australia	100	0	6	0	0	7
Republic of Korea	100	0	5	9	0	5

Notes:

- a. Countries listed are those with 5 or more import control measures listed in the source table.
- b. Data included are for “Implemented” measures coded “Restrictive,” i.e., “amber” or “red.”
- c. “Formal” in this tabulation includes Trade Defense Measures and Tariff Measures.
- d. “Informal” in this tabulation includes Non-tariff measures (not otherwise specified), Technical barriers to trade, Sanitary and phyto-sanitary measures, import quotas, and import bans.
- e. “Other support measures for domestic production” includes Bail out / state aid measures, Public procurement, Local content requirement and support for state-controlled companies.
- f. “Export support measures” include Export subsidies and support for export finance.
- g. “Export restriction measures” includes Export taxes and quantitative restrictions on exports.

Source: Tabulated from Global Trade Alert data “Implementing Country and Measure Type,” accessed of January 2012

### **IMPORT LICENSES AS IMPORT RESTRICTIONS**

To the extent that ad hoc measures such as those listed in Table 3.1 have been given legal form – beyond, say, shipments simply not being cleared from customs houses – it is a requirement for an import license. This could mean, for example, that unless the BMW dealer in Argentina documents her arrangements to promote the sale of Argentine rice and leather around the world, she does not receive the necessary license to clear a shipment of imported vehicles.

This amounts to a misuse of the purpose of import licenses within the GATT/WTO system. The sense of the WTO agreement on import licensing is that such measures are allowed as a means “to administer measures such as those adopted pursuant to the relevant provisions of GATT 1994,”<sup>15</sup> i.e., when there is some other provision in the rules that allows the import control that the license administers, such as an antidumping order.<sup>16</sup> In Argentine practice, an import license has become itself an instrument of trade control.

### **INDUSTRY SUPPORT AT HIGH COST**

We provide in this summary one example of the support the government of Argentina has provided for selected industries or regions, the incentives for the assembly of certain electronic products in the southernmost province of Argentina, the island of Tierra del Fuego. Assemblers on Tierra del Fuego are exempt from tariffs on inputs and taxes on production that are applied on the continent. (Protection against imports of assembled telephones includes a requirement that each visitor entering Argentina identify his or her cellular telephone, by brand and model, on the customs entry form.) Following creation of these incentives in late 2009 the assembly of cellular phones on the island jumped from 400,000 units in this year to 4,900,000 in 2010.

As to the effects of these incentives, manufacturing employment in Tierra del Fuego increased by around 2,800 in 2010; at a cost we estimate of US\$230,000 per job per year. The program has not brought new technology to Argentina, to qualify for the tax exceptions it is sufficient that the user manual and the warranty card be provided locally, along with packaging and labeling materials.<sup>17</sup>

### **EXPORT RESTRICTIONS**

During the last decade Argentina implemented widespread export taxes. These rates reached a peak around mid-2008 and are still high for major cereal products: wheat 23%, maize 20% and soybeans 35%. Starting in early 2006, these barriers were reinforced with quantitative restrictions on exports of wheat, maize and bovine meat. The restrictions on exports have brought about a significant shift of cropland from bovine

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<sup>15</sup> WTO Agreement on Import Licensing, Section 1.A.

<sup>16</sup> Of course, the issuance of that antidumping order – to be legal within the GATT/WTO system – must satisfy the procedural and substantive requirements of GATT Article VI and of the WTO agreement on antidumping.

<sup>17</sup> Costs of this order to create jobs through trade protection are not unusual. Hufbauer and Lowry (2012) estimate, for example, that application by the United States of additional tariffs on imports of automobile and truck tires from China saved perhaps 1,200 jobs at a cost of US\$900,000 per year per job.

cattle, wheat and maize to soybean cultivation; soybean exports not being subject to quantitative restrictions.<sup>18</sup>

These restrictions, like the imports restrictions, have been administered through informal procedures but in this case questions about administration prompted some members of the lower house of Congress (Cámara de Diputados) to propose the creation of a special investigation commission to look into possible irregularities of the administrative office responsible for the allocation of export quotas and the distribution of food subsidies to processors.

Export taxes are escalated – e.g., higher on wheat than on flour or bread; higher on maize than on chicken meat. As this implies, farm gate prices have declined by more than food prices, suggesting that the rents created by the export restrictions have been in significant part captured by processors.

#### **DOMESTIC POLITICAL SUPPORT**

More by default than public debate, domestic politics have generally supported the restrictive measures. The Government lost its majority in the lower chamber mid-term elections in 2009 but retained control of the Senate. In October 2011, the President was reelected with 54% of the popular vote and her party also retained majorities in both houses of Congress. Import barriers and more generally the degree of openness of the economy were never issues in the elections; the one candidate who spoke openly of eliminating export barriers took less than 2% of the vote.<sup>19</sup>

#### **WTO DISCIPLINE**

WTO Members raised questions about Argentina's practices and at a March 30, 2012, meeting of the WTO Council for Trade in Goods fourteen WTO Members delivered a joint statement on Argentine restrictions.(WTO document G/C/W/667) The Members' statement called on Argentina to "provide a detailed written explanation of why in its view these measures and practices are consistent with WTO rules." Argentina responded that its practices were compatible with WTO rules and that the statement was intended to make Argentina "an example to discourage developing countries from using the public policies we are fairly entitled to use" (WTO document G/C/W/668).

On 25 May 2012 the EU requested consultations with Argentina under the WTO Dispute Settlement Understanding. The EU charged that various Argentine measures violate:

- GATT articles related to national treatment, publication and administration of regulations, and the elimination of quantitative restrictions,
- The WTO Agreement on Trade-Related Investment Measures(TRIMs),
- The WTO Agreement on Import Licensing Procedures,
- The WTO Agreement on Safeguards.
- The WTO Agreement on Agriculture.

Japan and the United States filed parallel complaints in August 2012.

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<sup>18</sup> Nogués and Porto 2007 and Nogués 2011b provide details on Argentina's agricultural policies.

<sup>19</sup> In recent (August 2013) primary voting this candidate, Elisa Carrió, received 17 percent.

The government of Argentina subsequently announced that it would eliminate the import license requirements but that effective February 1, 2012, all registered importing companies are required to fill in an Anticipated Sworn Declaration of Imports (Declaracion Jurada Anticipada de Importacion - DJAI) application. Importers will also have to provide details about the business transaction in advance and wait for the national tax agency AFIP (Federal Administration of Public Income), to issue a permit. Goods that do not possess a valid DJAI authorization number will not be allowed to enter the country.<sup>20</sup>

The European Union, Japan and the United States responded that they would press ahead with their respective challenges.<sup>21</sup> At its meeting on 28 January 2013, the WTO Dispute Settlement Body established a single panel to take up simultaneously the Japan, European Union and United States complaints. The Director-General composed the panel on 27 May 2013.

The conclusion here is that the WTO dispute settlement process has provided minimal discipline against Argentine practices. Nine years of growing dissatisfaction by Members elapsed before formal complaints were raised and to now the complaints have resulted only in a modification of the form of Argentine restrictions, without change of their substance.

#### **RETALIATION HAS BEEN MORE EFFECTIVE DISCIPLINE**

Between April and October 2010, China banned soybean oil imports from Argentina, alleging the existence of chemical residues that exceeded agreed standards and China redirected imports toward other sources, most notably Brazil and the United States. Argentina was left to seek other export markets, such as India. By some estimates, during this ban, prices paid for Argentina's exports declined by US\$50–70 per ton for an aggregate loss of about US\$300 million (Longoni 2010).

To our knowledge, there has never been a clear explanation of what triggered the import ban by China. Most observers agree that if a problem really existed, Argentina had the resources and technological capability to implement quickly the adjustments required by China.<sup>22</sup> Nevertheless, the ban lasted several months. When it was finally lifted, Argentina's Ministry of Agriculture announced that such a decision was made thanks to a presidential visit to China in July 2010.

The facts suggest that the sanitary ban was retaliation implemented after the failure of informal bilateral talks to convince Argentina to reduce its enthusiasm for erecting barriers against imports from China. The numbers indicate that China's retaliation was effective. China had been an increasing target of Argentina's antidumping, 27 investigations initiated against China during 2008-2009 versus 20 against other countries.

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<sup>20</sup> Trade Risk Group 2012.

<sup>21</sup> Inside US Trade 2013.

<sup>22</sup> Argentina is known for having the most modern vegetable-oil processing facilities in the world.

Since the vegetable oils incidence ( i.e., in 2010-2012) nine initiations against China versus 24 against other countries.<sup>23</sup>

Baracat et al. (2013, pp. 104-104) documents retaliation by Brazil against Argentine restrictions on automobile imports, another instance of countries resorting to retaliation – a basic tool of the mercantilist system that the GATT/WTO legal system is intended to replace.

#### **REVERSION TO THE OLD POLICY CULTURE**

Argentina has reverted to inward-looking policies, most of them administered by obscure institutional arrangements characterized more by discretion and top down decisions than by participatory, transparent and accountable processes. In addition, the severity of the exchange control restrictions has intensified. The domestic currency is increasingly overvalued, the gap between the official and black market rates is widening. Again, the exchange rate (controlled by the Central Bank) is used primarily as an instrument to control inflation. Trade and exchange control measures have been used to defend the (nominal) exchange rate and to accommodate import-competing interests. These are in essence the institutional arrangements and the policies that characterized the protectionist era of Argentina's economic history. These institutions and policies are a central part of the explanation for why, during eight decades starting around 1930, the economy has underperformed comparator economies.

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<sup>23</sup> Tabulated from WTO data at <http://tmdb.wto.org>

## 4. Argentina and Peru: Different Paths

Argentine governments in this decade have chosen bad trade policies. By the standards of classical economics these policies are inefficient and at best a costly way to achieve the redistribution of income by which they have been rationalized. By the institutional standards expounded by Acemoglu and Robinson (2012) they are “extractive” and therefore not likely to promote long-term prosperity.

Peruvian governments have chosen good trade policies. By the standards of classical economics they position Peruvian producers to take advantage of dynamic world markets. They also subject them to the discipline of international competition. By Acemoglu–Robinson’s standards, Peru is building institutions that will support long-term, inclusive economic growth.

### THE DIFFERENCES

The Global Trade Alert data in Table 3.2 show that Argentina has put in place more import restrictions than any other country. By the GTA’s tabulation of all trade affecting measures – including domestic support and export restricting or supporting measures – Argentina is second only to the Russian Federation.

The table shows also the retreat from the discipline over policy management processes that were introduced in the 1990s. Almost two-thirds of Argentina’s measures have been put in place through informal procedures; and, as the section above explains, there has been a retreat from formalism when imposing restrictions that we continue to classify as formal.

In contrast, Peru has implemented fewer restrictions and has managed all of them through the modern governance procedures of INDECOPI.

### ACCOUNTING FOR THE DIFFERENCES

*“The fault, dear Brutus, is not in our stars, but in ourselves.”*

William Shakespeare, Julius Caesar, Act 1 Scene 2, Lines 140-141.

Training in modern economics conditions one to look for the “parameters” that explain why Peru’s reforms have gone in one direction, Argentina’s in another. Too much can be made of such. The difference between the two experiences does not lie in economic parameters such as geography or factor proportions; nor does it lie in the intensity of the economic disasters self-induced by the countries’ own policies or in the severity of the external shocks they have suffered. The difference is in dominant part a matter of choice.

The “parameters” that explain the difference lie at higher level of social structure than economics usually takes into account, the level of spirit.<sup>24</sup> Peru’s reforms display a buoyant and confident attitude toward the global economy. In the words of former president Alan Garcia, an eagerness to “climb up on the wave of growth” and a

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<sup>24</sup> Oliver E. Williamson, an institutional economist who has won an economics Nobel Prize, elaborates (2000) the various levels of social structure and analysis.

confidence to “ride the tiger;” to deal with the United States in the legalistic terms that characterize US dealings on international trade and come out the better for it.<sup>25</sup>

In comparison, Argentina’s current development strategy sees international trade only as “the second avenue of transmission of the global crisis.”<sup>26</sup> (The first is finance.)

A cognitive scientist might view this difference as a matter of “framing” rather than of economics.<sup>27</sup> Contrary to the simple idea that thinking proceeds by discarding ideas that are in conflict with evidence, researchers who work in this area have found that when persons receive information that does not fit the existing frame, the information, having no place to “stick,” will be discounted, the frame will stay in place.<sup>28</sup>

*If the truth doesn't fit the existing frame, the frame will stay in place and the truth will dissipate. It takes time and a lot of repetition for frames to become entrenched in the very synapses of people's brains. Moreover, they have to fit together in an overall coherent way for them to make sense. (Lakoff 2006, 5)*

This suggests that a valuable part of the Peruvian example is how reform leaders put Peru’s place and potential in the international economy into a new conceptual “frame;” particularly how they disseminated the new way of conceptualizing the relationship between Peru and the world economy among the Peruvian public, business leaders and the political leaders who have presided over the reforms.

In Argentina, the “frame” which current political leaders – and judging from the vote, much of the public – apply to international economics remains the “dependencia” conception, in which the world economy is a vehicle for exploitation rather than an opportunity for advancement. Consistent with this conception, the Argentine response to WTO Members’ questions about its trade policies is to interpret these questions as “an unjust mechanism through which powerful Members can arbitrarily censure other members with less economic clout.” (WTO document G/C/W/668)

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<sup>25</sup>The reform government in Argentina in the 1990s shared such an attitude.

<sup>26</sup>The quote is from Argentina’s “Country Partnership Strategy” with the World Bank. World Bank 2009, Annex 1, page 6.

<sup>27</sup>A “frame” refers to a conceptual structure involved with thinking. As a part of machine translation, identifying the “frame” inside which a sentence has meaning is an integral part of interpreting the meaning of the sentence. Take, for example, the sentence, ‘I am in the red.’ If the “frame” is motor racing, the sentence is likely about a tachometer reading, indicating that too much is being demanded of an engine. If, on the other hand, the “frame” is business performance, the sentence is likely about a business doing badly. Unless a computer recognizes the frame of a passage being translated, it will not be able to distinguish between such alternative meanings of the sentence. Lakoff 2006 provides an introduction to this analysis.

<sup>28</sup>Thomas Kuhn 1996 posits a similar stickiness in the shift from one scientific “paradigm” to another. Rather than the advancement of science being a continuous accumulation of concept and evidence, Kuhn sees that advancement as jumps from one paradigm to another, the acceptance of a new paradigm being something of a leap of faith to a new way of looking of things that eventually demonstrates itself to be productive. Such a shift, his analysis implies, has social (status) implications among scientists and these implications – as well as scientific evidence – influence the shifts.

## 5. Conclusions and Suggestions

Our principal conclusions are the following:

1. Leaders in Peru have disseminated widely in Peruvian society a positive vision of Peru in the international economy. Argentina has maintained a policy culture that characterizes the international economy as an exploitative environment.
2. Peru's reforms established new institutions based on sound economic and governance principles and tailored to the specifics of the Peruvian social and economic environments. The Asian example provided general guidance; perhaps more important, it provided reform leaders a means to communicate to the public what the reforms—and their results—would be.
3. In Argentina, the reversion to protectionism after the 1990s reforms has been primarily through the return to “off-the-books” restrictions, through processes not sanctioned by the GATT/WTO system.
4. Domestic politics has supported Argentina's return to protectionism and the WTO legal system has minimally restrained this return. Retaliation and threats of retaliation from trading partners (important tools of the pre-GATT trading system) have imposed some constraint.
5. A basic principle of the GATT/WTO system is that “members” use only approved methods of trade control: e.g., tariffs and trade remedies such as antidumping and safeguards. Application of this principle is helping to change the policy management culture in Peru. A similar attempt in the 1990s in Argentina did not take root.
6. Liberalization is at its core a national decision. The Peru case demonstrates how leadership in Peru, convinced that an open trade policy would serve the interests of Peruvians used international negotiations and rules to structure and build support for such a policy. The Argentina case demonstrates that international commitments, *per se*, will not prevent a government from applying extensive import restrictions.
7. The previous conclusions do not devalue the contribution of international cooperation. International cooperation has been useful when it has recognized and influenced domestic sovereignty over economic regulation; it has not been useful when approached as a matter of international regulation of national actions.

### **MORE ATTENTION TO HOW COUNTRIES MAKE POLICY**

Based on these conclusions, we suggest that the research community might help reform leaders to continue to advance if it devoted more attention to how national trade policy decisions are made; including, but not limited to:

1. How governments manage liberalization of trade barriers, including but not limited to how they use international negotiations and international rules in doing so, and
2. How governments contain pressures for protection within explicitly GATT/WTO-sanctioned processes.

This will require departure from the school of thought often labeled “the political economy of trade reform,” which frames all trade policy as the outcome of international negotiation. Bagwell and Staiger (2010) as they begin their review of this literature, put forward one of its key premises:

*Most trade-policy decisions that governments face today arise in the context of a variety of international commitments that must be considered; hence, the study of commercial policy in international trade has in effect become the study of trade agreements, in which the GATT/WTO plays a central role. (p. 224)*

Re the liberalization experiences we have studied, this statement is both descriptively incorrect and analytically misleading. With Mexico's NAFTA bargaining being the exception, Latin American trade policy reform has been in large part unilateral. Liberalization was not fashioned through the process of reciprocal bargaining; indeed the bound rates these countries attached to the Uruguay Round agreements were ceiling bindings, two to four times higher than the MFN rates then applied. (Mexico's WTO-bound rates average more than four times the average for their applied MFN rates.<sup>29</sup>)

In this context it is important to bring forward a finding from the Peru study: FTA negotiations give small-country reformers more influence in the domestic politics of trade than do WTO negotiations. FTA negotiations have brought forward in the public mind that Peruvian leaders have been shapers of the accords. They also allowed them greater influence over the pace of liberalization than WTO negotiations would allow. Large countries such as the United States, India and Brazil can use leadership in WTO negotiations as part of the management of their domestic politics of trade policy, but their doing so takes away the same opportunity for smaller countries.

The application by Latin American governments of GATT/WTO rules on antidumping and other trade remedies has likewise been unilateral. These governments were not bargaining with other countries over the content of these rules, nor were they bargaining to accept these rules in exchange for reciprocal "concessions" from other countries. When these reforms were put in place all of the countries except Mexico were already GATT contracting parties and hence had already accepted the international law obligations implicit in those rules. They were using the rules – as they existed – to restructure domestic policy-making institutions in such a way as to remove a burdensome accumulation of institutions and regulations and to ensure that the philosophies and interests that supported the ongoing reforms would have a voice in the management of pressures for protection that might arise in the future.

Use of formal trade remedies should be approached as part of the broader question of how governments manage domestic pressures for protection. A critical part of how Peru has sustained its reforms is how leaders there have insisted that all pressures for protection be channeled through INDECOPI. Leaders we interviewed indicated that there have been pressures for off-the-books actions and that saying "No. Go to INDECOPI," has been an exercise in political courage by high officials.<sup>30</sup>

As to the meaning in this context of "commitment," part of a property rights interpretation of trade remedies is that they express the rights of domestic industries to protection from foreign competition. In a rule-of-law situation – which implies a positive

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<sup>29</sup> WTO data at <http://stat.wto.org/TariffProfile/WSDBTariffPFView.aspx?Language=E&Country=MX>. Accessed 23 August 2013.

<sup>30</sup> Harberger 1993 brings forward the importance of political courage in sustaining economic reforms.

list approach to actions that a government can take – trade remedies also express limits on this right. Restrictions may be imposed only in specified situations and when the existence of these conditions has been established through specified procedures. These limits thus constitute the rights of importers to access to foreign goods.

In the modern value-chain economy, guarantee in national law of enterprises' access to imports has more immediate commercial relevance than the rights of exporters' governments to market access under WTO law or tariff bindings. If a US customs official imposes a tariff higher than the rate established under US law, the importer has immediate recourse under US law. The importer's access to foreign supply would be commercially valueless if it had to be defended through the exporting country's rights under US bindings at the WTO.

The same principle applies to misuse<sup>31</sup> of trade remedies or resort to off-the-books restrictions. To be commercially meaningful, commitment must be deeper than accepting an international law obligation. The GATT/WTO principle that members apply only approved methods of trade control must have operational expression in national institutions. How this comes about is worthy of study.

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<sup>31</sup> As to "misuse" of trade remedies, Finger 2012 argues that every trade remedy use is a misuse by economic and legal standards, and yet the trade remedies system contributes significantly to the maintenance of an open international trading system. The disparity between theory and practice is a flaw in theory rather than in practice.

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