



PRODUCCIÓN Y TRABAJO EN LA ARGENTINA

MEMORIA FOTOGRÁFICA
1860-1960



THE ARGENTINE INDUSTRY A THWARTED RESTRUCTURING PROCESS

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Introduction

Argentina's industrialisation started off in the late nineteenth century and developed alongside the dynamic agro-export model which dominated the economy until the beginning of the 1930s. At that time, industry began to occupy a favoured position in the Argentine economy through the process known as 'import substituting industrialisation' (ISI). In fact, during the second phase of ISI, which began in 1958, industrial activities became the country's engine of economic growth and job creation, and its base for capital accumulation. At the same time, industry was developing

technological capabilities which were remarkable for the Latin American context at that time.

However, by the mid-1970s, this model of industrialisation was facing a series of inherent difficulties. These included problems related to (a) the type of industrial organisation which had emerged—e.g., plants of too small a scale, the lack of subcontractors and specialised suppliers, poor international competitiveness, etc.—and (b) the macroeconomic functioning of the Argentine economy—e.g., strong transfers of income, balance-of-payments deficits, etc.

Meanwhile, progress made in the more advanced industrial countries was generating a changeover to a new techno-production pattern in which the models for organising industrial production were based on a different kind of logic from the prevailing 'Fordist' mass-production models. One of the key factors behind such changes was the spectacular progress occurring in microelectronics—which made the transition possible from the 'electromechanical world' to the 'electronic world'.

In Argentina, when faced by difficulties of restoring industrial growth, the local response was not based on taking advantage of the stocks of technology accumulated in the previous stage (so as to overcome the difficulties in that way). Instead, it was based on an effort to introduce a structural reform programme linked to the opening-up of the economy. However, the failure of this policy and programme (in its detailed application) in the period 1976-1981 ended up by dislocating the production structure.

In the 1980s, another organisational model for the production of industrial goods emerged in Argentina which was very different from the substitution strategy. It was coupled to changes at the international technological frontier and to the instability and uncertainty of the macroeconomic setting, and it gave rise to very substantial modifications at several levels: institutional, sectoral and microeconomic, and also in terms of the way in which Argentine industry was linked into the global economy.

The goal of this study is to analyse the main characteristics of Argentine manufacturing industry and the main stages of its development over more than a century and, especially, its structural features during the 1980s and the changes that have occurred since the Convertibility Plan was introduced in 1991.

The first stages of Argentine industrial development

Argentina's present industrial structure is the result of a long series of developments that started over a century ago. The ensuing industrial activities did not merely produce goods but led, at the same time, to the growth of learning processes, to the incorporation of technology, to continuous improvements in skills and training, and to the setting up of institutional and regulatory frameworks. They also led to the country developing a modified pattern of specialisation within the international division of labour, to the economic organisation of its markets, to linkages with other economic activities, etc. Significant changes over time in each of the above factors, in turn, helped to shape the social organisation for production of manufactured goods. As it developed, the Argentine economy came to be noted for its degree of industrialisation within the Latin American

context. However, if comparison is made with the economies of more advanced countries, then the central features of Argentina's economy clearly identify it as a 'semi-industrialised' one.

The changes in the country's level of industrialisation during the period 1900-1990 can be appreciated by considering the share of gross domestic product (GDP) which was produced by manufacturing industry.

There was uninterrupted growth in manufacturing industry's share of the Argentine economy until the mid-1970s. At that point a process of continuous decline began. The resulting fall in its share of GDP was so great that the degree of industrialisation at the start of the 1990s was similar to its level in the 1940s.

In broad terms, three major periods can be identified in Argentina's industrialisation process. The first one begins around 1880 when the country made a radical shift into becoming integrated with the rest of the world as an agro-export economy, and this position continued until the crisis of 1930. The second period of some 50 years, extending between the 1930 crisis and the late 1970s, refers to the application of the strategy of ISI within a semi-closed economy framework, and it includes various subperiods. The third period starts with the failure of the 1979-1981 economic openness policy and the lengthy macroeconomic disruption of the country which lasted since the mid-1970s until 1990.

The Argentine agro-export model was based on specialising in the production of grains and meat through exploiting the country's abundant and competitive natural resources. Once it had got its institutional structure settled, Argentina vigorously won a place for itself in the international economy as a dynamic exporter of primary goods and as an importer of capital and manufactured goods. It operated an open economy regulated by the gold standard. Its economic fluctuations were linked to weather conditions (which affected total agricultural output) and to the British business cycle (as Britain was its main international trading partner).

At the same time, conditions began to arise which were favourable for the incipient industrialisation of the country. These conditions largely took the form of the 'stimuli' which A. Hirschman described for Latin America.¹ Among them can be mentioned:

- The existence of competitive goods in the primary sector that had to be processed in some way before being exported (meat, tannin, leather, wool, flour, etc.).
- A flow of European immigrants who already possessed industrial skills.
- The early development of generalised education and technical and professional specialisation.
- Difficulties in external supply during World War I.
- Derived demands stemming from primary production and from infrastructure needs (e.g. agricultural machinery, large railway maintenance networks, cement, etc.).

- Transportation costs and natural protective barriers.
- Sustained rapid growth in the size of the domestic market.

These factors all contributed to the gradual development of the most significant industrial structure in the region which, even before the crisis of the agro-export model, already produced 20 per cent of GDP and consisted of over 50,000 industrial establishments.

The end of the expansion of the agricultural frontier, together with the 1929 international crisis and the conflictive three-sided relationship between Argentina, the United Kingdom and the United States, caused the demise of the agro-export model. The imposition of foreign-exchange control in 1931 and of import permits in 1933, and the splitting into two of the foreign exchange market and the raising of import tariffs (mainly for fiscal reasons) are illustrative of the new manner in which the economy operated. The result of this closed-economy scheme was that foreign trade gradually became less and less important in terms of its share of GDP. These were, in fact, the conditions in which the first subperiod of ISI developed. The substitution process was based on the incipient industrialisation already achieved in the first stage and it advanced very quickly into the 'easy' sectors of manufacturing production. Industries which produced consumer goods (food, textiles, clothing), household electrical appliances, simple machinery and straightforward metal products, as well as those industrial activities associated with construction, were the most dynamic activities during this subperiod, which continued until Perón took office in 1946.

Industrialisation quickly deepened during the following 12-year subperiod (1946-1958). Basically, this was due to the expansion of existing activities, the intensive utilisation of labour, and the broadening of the domestic market to incorporate the entire population. The State took up a very active role both in the production of basic inputs and in operating a wide range of policy instruments. The latter included: administering import quotas, financing industrial activities through the Banco de Crédito Industrial and the Central Bank's rediscounting facilities, promoting specific industrial sectors, and using non-tariff mechanisms. Industry had clearly specialised in producing consumer goods exclusively for the domestic market, but constraints on its dynamic further growth were found to exist as its level of technological obsolescence increased, and as the business community found itself unable—either entrepreneurially or technologically—to progress into more complex kinds of manufacturing, in a situation when continuous restrictions were imposed by the balance of payments.

In 1958 the last ISI subperiod started, which ran until the mid-1970s. It was based on the petrochemical industry and on the complex of metal products and machinery industries (of which the motor vehicles industry was the most representative sector). During this subperiod, the importance of industry within the overall economy was at its height and it became the economy's engine-of-growth and job creation, as well as its base for capital accumulation. The empty cells of the input-output matrix were progressively filled in, and this involved some extensive participation by subsidiaries of transnational corporations. This took place in the framework of a highly

¹ See Hirschman, A., 'La economía política de la industrialización a través de la sustitución de importaciones', in *El Trimestre Económico*, 35(140): 625-658, Mexico, 1968.

protected economy and was a response to the explicit policy goal of raising the level of national economic self-sufficiency.

These changes gave rise to a process of rapid technological development based on installing technologies which had been developed in more advanced countries yet adapting them significantly to the local environment. This meant copying 'Fordist' production-line methods yet incorporating a strong local component into them. However, this led to various problems: the output of these plants was generated in short production series and was exclusively oriented to the local market, so that its scale was, on average, some ten times lower than that of similar plants operating at the technological frontier; the level of vertical integration was notably high due to the weak development of specialised suppliers and subcontractors in a context where transaction costs were high; and the production mix was also markedly diversified. These were only some of the problems of international competitiveness affecting the Argentine industrial structure. In addition, Argentina's macroeconomic constraints were an obstacle for financing the transfer of income to industrial activities. Furthermore, it was industry's own trade deficit that restricted the possibilities of achieving industrial growth over any sustained period without engendering a balance-of-payments crisis.

The perception of these problems led to a search for policy solutions within the framework of ISI. On the one hand, programmes of incentives to export manufactured goods were introduced. Their aim was simultaneously to increase scarce foreign currency, to expand the overall market (because the domestic market was showing signs of saturation), and to stimulate the overall competitiveness of industry. The results were quite appreciable: while in 1960 exports of non-traditional goods were practically nonexistent, in 1975 they represented a quarter of the country's exports. On the other hand, the attempt was made to deepen the extent of ISI by reducing the country's heavy dependence on imports of basic industrial inputs such as steel, aluminium, paper and petrochemicals. This led the government to promote some major industrial projects to produce these inputs locally. The promotion was based on (a) the amount of foreign currency savings these projects would produce and (b) the prospect that these projects would also lead to the broadening of the domestic market through the forward linkages that the new factories would have with high-value-added and employment-generating activities.² Meanwhile the government also continued to operate its existing promotional mechanisms, as well as utilising the purchasing power and investment programmes of public-sector and State-owned enterprises as significant instruments of industrial policy throughout this subperiod.

The breakdown of ISI (1976-1981)

The economic policy launched in April 1976 profoundly changed the guidelines and directions which industry had been following until then.

² The implementation of these projects during the 1980s, while the ISI model was being dismantled, brought about significant structural changes, but had different results from those that had been planned.

The new authorities' full confidence in the resource-allocation capabilities of market forces and in the State's subsidiary role were the philosophical underpinnings for a programme of market liberalisation followed by external openness. It aimed to eliminate the entire set of regulations, subsidies and privileges established in the past, in an attempt to modernise and increase the efficiency of the economy.³

As far as industrial policy is concerned, two distinct subperiods can be identified for which the dividing line can be placed around late 1978. The years before that date were characterised by a recovery in the production of durable consumer goods and capital goods, and were associated with increasing investment and with a regressive redistribution of income. In this period—which the authorities labelled as that of the 'sinceramiento' of the economy (which translates roughly as 'making the economy sincere')—a start was made on reducing import tariffs.⁴ In fact, strong reductions were imposed—on average 40 percentage points—so that tariffs fell from the previously prevailing average level of 90 per cent to 50 per cent. In spite of this, imports did not rise significantly during the next three years. The explanation of this phenomenon is, on the one hand, that increased competitiveness had been achieved in the previous decade, which meant that considerable parts of the former tariff structure were redundant, and on the other hand, that the exchange rate (in terms of local-currency units per dollar) had been maintained at a high level. Furthermore, the financial reform approved in 1977 liberalised the interest rate and created a totally different mechanism for the allocation of credit.⁵

The second subperiod began in late 1978 with the detailed application of a policy which was based on the monetarist school's model of the open economy (i.e., the monetary approach to the balance of payments).

³ See Canitrot, A., *La política de apertura económica (1976-81) y sus efectos sobre el empleo y los salarios. Un estudio macroeconómico*, Gobierno Argentino/PNUD/OIT Project, Ministerio de Trabajo, Buenos Aires, 1983; Damill, M., Fanelli, J.M., Frenkel, R. and Rozenwurcel, G., *Las relaciones financieras en la economía argentina*, Ediciones del Instituto de Desarrollo Económico y Social (IDES), N° 15, Buenos Aires, 1988; Kosacoff, B., Lucangeli, J. and Sourrouille, J.V., *Transnacionalización y política económica en la Argentina*, Centro Editor de América Latina, Buenos Aires, 1985; Schvarzer, J., Martínez de Hoz: *La lógica política de la política económica*, Centro de Investigaciones Sociales sobre el Estado y la Administración (CISEA), Buenos Aires, 1983; Rodríguez, C., 'El plan argentino de estabilización del 20 de diciembre', Working Paper N° 5, Centro de Estudios Macroeconómicos de Argentina (CEMA), Buenos Aires, 1979.

⁴ See Berlinsky, J., *Protección arancelaria de actividades seleccionadas de la industria manufacturera argentina*, Ministerio de Economía, Buenos Aires, 1977; Nogués, J., 'Protección nominal y efectiva: impacto de las reformas arancelarias durante 1976-77', *Ensayos Económicos*, N° 8, 2nd. part, 147-212, Banco Central de la República Argentina (BCRA), Buenos Aires, 1978.

⁵ From the 1930 crisis until 1977, the Argentine financial system was characterised by the Central Bank's regulation of rediscounting facilities for the granting of credits at highly negative interest rates. Industrial firms tended to get favoured treatment in terms of the credit allocations made under this system.

The goal which the authorities hoped to achieve through this policy was progressively to bring down the domestic inflation rate until it matched the international one. The intention was to use deliberate government control of the exchange rate variable to achieve a progressive downward adjustment of the external rate of inflation as measured in terms of local currency. A pre-established programme of devaluations of the local currency against the U.S. dollar was put in place in the form of a published timetable (the 'tablita') which specified a steadily decreasing rate of devaluation over time, within a context of increasing economic openness to the outside world (both in the capital market and in product markets); it was based on the assumption that domestic interest and inflation rates would converge to the corresponding international rates. It was assumed—within the rationale of the passive monetary scheme—that convergence would be achieved after a transition period whose length would be determined by the different speeds at which the prices of goods would get adjusted, depending on whether they were traded in international markets or not. Then, once convergence was achieved, a new relative price structure would thus be in force and established. Such a price structure would induce resource allocation to favour the development of sectors with comparative advantages, which could produce on an international scale, and, combined with the tariff policy, it would also force less-efficient sectors into closing down, so that the overall productivity of the economy would increase.

However, 'convergence' was never achieved. Adjustment in the prices of internationally tradable goods was slow and imperfect whilst the mechanisms envisaged to operate for non-tradable goods did not produce the expected results. In addition, the trend in level of the domestic interest-rate was greatly affected by a growing premium (i.e. a surcharge) that was reflected in this rate cowing to the prevailing uncertainty and the high costs of financial intermediation. As for the exchange rate, its devaluation timetable had been devised on the basis of a forecast level of inflation that was lower than the real one—thus producing a continuous overvaluation of the local currency (the peso).

This overvaluation of the peso, combined with the tariff reductions, strongly affected the trade balance and opened the door to a massive influx of imported products. Furthermore, there was also an unrestricted inflow of external capital—taking advantage of the freedoms conferred by the external financial openness of the economy. Almost all this was short-term capital coming from a financial market characterised by both high liquidity and high domestic interest rates. This inflow of capital compensated for the current-account deficits and resulted in a significant increase in foreign indebtedness. Moreover, these transactions—because of their serious impact on the balance of payments—gave advance warning that a devaluation was impending in what was a highly liquid capital market given the very short-term maturity dates of deposits. In addition, fiscal policy was not sufficiently carefully designed: transfers of income that were difficult to justify continued throughout the whole period without the necessary screening or assessment. Furthermore, all these events were unfolding in an atmosphere in which changes in the political and economic authorities

were expected. As a result, the risk premium for borrowing foreign capital rose considerably, which in turn led to even higher interest rates.

In that context, the concurrence of several negative factors produced the deepest crisis for the Argentine industrial sector in its entire history. The most important of these factors were that both domestic demand and export demand for locally produced industrial goods were low: domestic demand for these goods had been hit by the influx of competitive imported products, and export demand for them had been reduced by the exchange-rate policy which had caused the peso to become greatly overvalued. At the same time, the existence of high interest rates largely cancelled out any possibility of making profits from production activity, and the fact that these interest rates were steadily rising resulted in firms acquiring levels of indebtedness that often exceeded the value of their assets.⁶

In March 1981, there was a change of authorities within the military regime. This produced a series of short-run measures aimed at resolving the most pressing problems in the production sector of the economy. Nevertheless, the stagnation of the industrial sector continued throughout this period, which was one marked by continuous devaluations of the domestic currency and the persistence of positive interest rates. The business sector centred its claims on the need to solve their critical indebtedness problems. Towards mid-1982, a medium-term financing system was established for firms based on regulated interest rates. These regulated rates, in combination with a growing inflation rate, provoked a thoroughgoing 'liquidation of the liabilities' of firms and provided a major source of relief for financial institutions. In addition, the State took over most of the private foreign debt through implementing a system of exchange-rate-risk insurance. The result brought about by these two mechanisms was to 'socialise' the losses of the business sector (i.e. to nationalise private business debts). By this time, a massive volume of foreign debt had built up. Its level was such that the interest payments required to service it far surpassed even the most optimistic trade-balance forecasts. The revaluation of the exchange rate and the newly imposed restrictions on imports (brought in because of the huge foreign-debt burden) created conditions that signified renewed protection for the industrial sector. The import coefficient of the Argentine economy once again approached the levels that it had been at before the economic-openness policy was applied.

The post debt-crisis period (1982-1990)

The local macroeconomic framework was the key determinant of a great many of the transformations that occurred between 1982 and 1990.⁷

⁶ The very marked changes in relative prices that occurred during this period were favourable to service activities and to businesses producing non-tradable goods. In contrast, the tradable industrial goods sectors suffered a profound fall in their relative prices and found themselves having to pay heavy loan-servicing charges based on high real interest rates.

⁷ For a more detailed study of Argentine macroeconomic conditions, see, among others, Bonvecchi, C., 'Rasgos centrales de las políticas macroeconómicas seguidas por la

The application of the 'monetary approach to the balance of payments' in the late 1970s had proved to be the breaking point of the previous industrialisation model, and the failure of this monetarist policy and the huge ensuing level of foreign indebtedness generated macroeconomic instability and uncertainty for the whole of the succeeding decade. The instability encompassed both fiscal and external disequilibria, plus a very fragile financial system. 'Stabilisation'—which the economy needed—was not merely a constant goal of policy-makers throughout this period, but actually became an utterly unavoidable priority once the economy began to suffer a series of major disturbances, of which the hyperinflationary episodes in 1989 and 1990 were the most blatant. The role of external determinants, the need for coherent and persistent stabilisation policies, as well as the contents of such policies, were of great concern to Argentine society throughout this whole period.

The 1982 foreign-debt crisis reversed the sign of the net resource transfers from abroad as a consequence of the interruption of capital inflows and the increase in international interest rates. This immediately resulted in the reemergence and intensification of the structural external disequilibrium of the economy, and (making things worse) there was a simultaneous financial crisis in the public sector. These two basic disequilibria were complemented by the short-run dynamics of the economy in the sense that the high-inflation regime and financial fragility amplified and sharpened the consequences of the measures adopted specifically to correct these disequilibria. Therefore the challenge facing economic policy-makers was to identify an efficient way to correct the structural imbalances while reducing inflation but without incurring excessive costs in terms of production, employment and real wages.

External disequilibrium can be characterised by the imbalance between the flow of income that a country can generate and the magnitude of the external payment commitments that its debt stock imposes. Argentina's search for large foreign-trade surpluses through devaluations of the local currency and the contraction of domestic expenditure led to increases in exports and a drastic decline in imports and investments. The impact of

heavy foreign-debt-servicing payments was clearly visible in terms of the resultant deficit in the current account of the balance of payments, and in this respect the public sector was in a particularly unfavourable position due to the steps that had been taken to nationalise the private foreign debt. In turn, the deterioration in the terms of trade strongly eroded the export effort.

The fiscal accounts featured increasing levels of public expenditure which were not being matched by tax revenues, which were declining. The State's usual method in the past for financing such deficits (i.e. raising external and internal indebtedness and through tax by way of inflation) had been thrown out-of-gear by the foreign-debt crisis and by the nationalisation of foreign debt—at a time when the acuteness of the fiscal deficits was increasing.

The prevalence of persistent high inflation produced intense self-propelling inflation-propagation mechanisms and led to high and volatile inflation rates. At the same time, the precarious financial situation caused both by the demonetisation process and lack of external financing was one of the main obstacles to economic policy management. The obligation to service the foreign debt was in the hands of the public sector, and trade surpluses existed which were generated by the private sector. This posed acute difficulties to the fiscal authorities for purchasing the much-needed foreign-currency surpluses. In order to obtain such funds the public sector had no choice but either to increase its own surplus, or to finance itself through issuing money or making placements of internal debt, or else to fall into foreign-payment arrears. Each of these options had disadvantages and unwanted effects. The existence of these macroeconomic disequilibria produced a permanent climate of uncertainty which damaged the investment process and encouraged substantial 'capital flight'.

Three major economic policy programmes can be highlighted during this period: the Austral Plan, the Plan Primavera (the Spring Plan) and the Bunge & Born Plan. Each of these plans aimed to secure surpluses in the trade balance, and also attempted to improve control over nominal aggregate demand, to correct relative prices, and to reorient the process of expectations formation. In every case they came up against obstacles to sustaining their fiscal achievements because that proved to be incompatible with the real possibilities that were available from internal, external and monetary financing. As a consequence, it came increasingly to be understood that structural reforms were essential.

Between 1980 and 1990 the performance of the main economic indicators was not very encouraging and the adjustment process had a high social cost. Only exports moved in a positive direction with 78 per cent growth between 1980 and 1990. The remaining indicators revealed the profound deterioration of the economy: GDP diminished by 9.4 per cent, industrial output by 24 per cent, and consumption by 15.8 per cent; imports and investment went down by 58.9 per cent and 70.1 per cent, respectively; GDP per capita was reduced by 25 per cent. In turn, the rate of open unemployment doubled, while the level of industrial employment diminished by around 30 per cent and the average industrial real wage rate was 24 per cent lower in 1990 than it had been at the beginning of the 1980s. In line with this, a process of income concentration was observed

Argentina a partir de la crisis de la deuda externa: 1982-1991', in Kosacoff, B. (ed.), 'El comercio internacional de manufacturas de la Argentina 1974-1990: políticas comerciales, cambios estructurales y nuevas formas de inserción internacional', Working Paper N° 51 (LC/BUE/L.133), Economic Commission for Latin America and the Caribbean (ECLAC), Buenos Aires, 1992; Heymann, D., 'Tres ensayos sobre inflación y políticas de estabilización', Estudios e Informes de la CEPAL, N° 63 (LC/G.1453), Economic Commission for Latin America and the Caribbean (ECLAC), Santiago de Chile, 1986; Machinea, J.L., 'Stabilisation under Alfonsín's government. A frustrated attempt', Working Paper N° 42, Centro de Estudios de Estado y Sociedad (CEDES), Buenos Aires, 1990; Carciofi, R., 'La desarticulación del pacto fiscal: una interpretación sobre la evolución del sector público argentino en las últimas dos décadas', Working Paper N° 36 (LC/BUE/L.118), Economic Commission for Latin America and the Caribbean (ECLAC), Buenos Aires, 1990; Damill, M., Fanelli, J., Frenkel, R. and Rozenwurcel, G., 'Déficit fiscal, deuda externa y desequilibrio financiero', Editorial Tesis, Buenos Aires, 1989.

which was linked to a more regressive income distribution pattern and to worsening states of extreme poverty.

These new conditions generated significant sectoral and microeconomic changes. As a result, unlike during previous stages when the industrial sector had been the engine of growth in the economy, the period 1975-1990 was characterised by: (1) the stagnation of manufacturing activities (which lost more than 5 per cent of their GDP share); (2) the absence of new job creation at a time of serious structural difficulties in the labour market; and (3) investment levels that fell below the level of capital depreciation, producing decapitalisation in the manufacturing sector. However, it would not be correct to conclude that manufacturing industry at the start of the 1990s was in a stagnant, damaged state producing goods under the same pattern of social organisation that had prevailed throughout the import substitution stage. Instead, industrial activities had undergone a set of profound structural changes that, in a summary manner, can be described as having involved 'regressive restructuring' and a 'growing degree of structural heterogeneity'.

The 'regressive' character arises mainly from two aspects: the first concerns the inability shown by the economy to base the restructuring of industry on the positive aspects that had been built up in four decades of import substitution—during which knowledge, abilities, engineering and entrepreneurial skills, equipment, human resources, etc., had all been accumulated. It is true that these aspects were also connected to the serious problems that had caused the ISI model to run out of impetus. However, a truly efficient allocation of resources would have been one that led to the overcoming of these problems while retaining the positive assets that existed within the stock of accumulated capabilities. Countless examples of how this criterion was not followed can be found in Argentina's restructuring experience at corporate and sectoral levels, and with regard to technology and human resources.

The second aspect refers to the income transfers that took place during the restructuring process. On the one hand, the new specialisation pattern for Argentine industry which emerged from the process (and the resulting place that industry held within the global economy) did not have a sufficiently good fit with the country's factor endowment, and nor did it provide enough scope for generating dynamic competitive advantages. On the other hand, the deterioration in public sector social policies (such as education, health, housing, infrastructure) that accompanied the country's fiscal dislocation had a serious impact on social equality and, in turn, on the economy's systemic competitiveness.

So far as 'growing heterogeneity' is concerned, this was brought about by the occurrence of strongly contrasting performances at the sectoral level and, even more so, at the firm level. The aggregate position of stagnation can be broken down into (a) a large group of firms that contracted in size or got dismantled or left behind, whilst, simultaneously, (b) other firms expanded and modernized their production structures. There are plenty of documented cases of successful microeconomic performance. However, the sum total of all such cases did not generate enough macroeconomic strength to establish a new path for economic growth in Argentina.

The macroeconomic performance at the beginning of the 1990s was characterised by an important rise in the domestic demand, boosted by the increase of local and international credit offer. This behaviour is based on the positive expectations from future income deriving from the change of the economic system that creates a consumption increase and generates new investment opportunities. The least financial restriction could be seen not only in the recovery of the bank lending, as a result of a growing monetisation, but also in the capital market growth where debt securities and stocks were issued at high amounts. The increase in the aggregate demand extended to the different sectors of the economy even though it should be noted that the high increase of the manufactured product was lower than the total product itself. The poor impact of the industrial expansion over the employment, stemming from the negative effects of the restructuring of industry, contributed to increase unemployment. The sharp raise in the imports of goods, together with the exports that did not show the same performance, resulted in a considerable negative balance of payment. Also, deficits in the current account of the balance of payment started to cause some doubts as to the sustainability of the macroeconomic pattern, although they were excessively covered by foreign investment income and international credit transactions.

Within this context, the increase of the international interest rate and the Mexican devaluation caused a financial crisis in 1995. This shock, stemming from a credit offer curtailment, had a direct impact on the level of activity and unemployment and severely affected the financial system. The fast overcoming of the crisis, supported by an improve in international prices, the Brazilian demand growth after the launching of the Real Plan (the Brazilian currency plan) and the regulatory reforms to the financial system, had probably contributed to reassert the positive perceptions on income growth and the soundness of a macroeconomic pattern that allowed for an increase in exports, savings and employment.

Since 1998, the Argentine economy has been affected by various simultaneous negative shocks. The effects of the Russian crisis on the access to financing and interest rates in emerging markets, the later devaluation and amendment of the exchange system of the main commercial partner, the sharp drop in the prices of products exported by the country, the persistent strength of the dollar vis-à-vis the other currencies of the world and the continuous shift performed by the public sector over the private sector from domestic financial markets, are the most significant examples of these changes. By the turn of the decade, the beginning of a long period governed by recession and deflation created growing tension and changed expectancies regarding the potential growth of the economy and the credit standing of the public sector, thus resulting in a final collapse of the economic system.

Production strategies and corporate transformations during the 1990s

In response to the new situation of the local competitive market, strong corporate turnaround processes started to take place where not only strategies but also the relative importance of the different activities and economic agents as well as the production, technological and commercial

practices have been altered. Within this dynamics, the different actions taken by the firms determined opposed results that can be divided into two big groups as far as corporate conducts is concerned. On the one hand, there appear the so-called 'offensive reorganisations' which are characterised by the fact that they have attained efficiency levels compared to the best international practices and which cover a small group of around 400 companies. Although cases may be found in the whole production framework, they prevail in the activities connected with the extraction and processing of natural resources related to the industry of basic inputs and in a sector of the automotive industry. On the other hand, the rest of the production framework, some 25 thousand firms if we do not consider small companies, was characterised by carrying out the so-called 'defensive behaviours' which, in spite of the progress in terms of productivity compared with the past, are far from the international technical frontier and keep in force certain traits of the substitutive stage, such as a reduced production scale or scarce specialisation economies.⁸

It can be asserted that the economic stabilisation process started in the 1990s significantly increased the capacity to envisage the evolution of the principal macroeconomic variables and involved an incomparable advantage for the organisation of production activities. However, a new type of incertitude arose, which can be called strategic incertitude, and which is tallied with the modification of the competitive environment of firms and with the new rules of the game that determine what the companies are going to produce and how they are going to do it. Decisions on investment in specific assets, incorporation or replacement of production lines, qualification of human resources in the firm or the course of action to be followed as to the technological learning, attain such a broad dimension which is very difficult to assess with the prevailing system in a semi-closed economy.

One of the core aspects of the structural transformations was the redesign of the corporate profile prevailing during the substitutive process. A general overview would indicate that, together with the withdrawal of State entities and a certain regression of small and medium-sized companies, there is the reorganisation of local economic conglomerates and the leadership and sustained dynamism of transnational companies. Within the universe of revenue-earning companies, it is first to be pointed out the behaviour of transnational companies, which main strategies are related to the direct foreign investment flows arrived during the 1990s. Foreign investment led the production turnaround process during the 1990s, especially in connection with the modernisation feature of the process, and an important relationship among the most dynamic sectors of the local production stands out together with the increasing participation of foreign capitals in those sectors. Even within the framework of the strategies aimed mostly at making a better use of the domestic or subregional market, affiliates made investments tending to use their natural and human

resources more efficiently and selectively in order to fit more actively into the international structure of the corporation.

The 1990s marked a change in the course of the dynamics of domestic economic conglomerates in Argentina. The new economic conditions opened multiple business opportunities in a stable and growing environment, but at the same time they were confronted with the contestableness of the international competition. Unlike previous stages within the Argentine economic history, the behaviour of local conglomerates in the 1990s is highly heterogeneous and changing. The type of production, the degree of initial diversification, the size compared to international competitors, the behaviour of the demand, the stage of generation change the economic group is undergoing, will have a determining influence to shape different adjustment courses of action. However, the strategies that followed have some common traits: a trend towards specialisation in a more reduced series of activities compared with the past, an expansion towards other markets by means of a direct investment and the concentration of production activities in areas with major natural advantages or less tradability, and a poor presence in the most dynamic international sectors based on the knowledge and technological innovation. Also, the distinctive element of the strategic positioning of conglomerates is shown by overseas direct investments, which have a different extent and methods than the ones of the ISI stage. By means of this type of strategy, some national groups try to achieve a global or regional leadership in specific market segments. For another group of companies, internationalisation through direct investment is an essential element for their own survival and expansion in the new economic context.

There exists a certain consensus as for the fact that during the ISI the prevailing traits of Argentine small and medium-size companies were: management centralisation in the owner of the company, a poor significant external insertion, a predominance of defensive strategies, a broad production mix, a poor production specialisation, a low co-operation with other firms, a limited relevance of innovation activities and a low investment level. These characteristics, which to a great extent continued during the 1990s, determined the responses they were able to implement in view of the structural reforms. Within this context, the difficulty to define an adequate production strategy during the economic transformation process reached the small and medium-size companies as a whole, regardless of their production specialisation. The new 'economic environment' increased the uncertainty of the firms and the quantity and quality of the information they had to process. The concern about the situation and the perspectives of small and medium-size companies was shown in the proliferation of different government initiatives—in the financing, technical assistance, information, and other areas—which, in general, have had serious difficulties to accomplish their objectives due to different reasons), in the performance and proposals of different chambers of commerce as well as in the claims which, from the social and political environment, aimed at the protection and the promotion of small and medium-size companies.

The growing trend towards the adoption of technologies of foreign products that entailed levels closer to the best international practices was at

⁸ Kosacoff, B. (ed.), *Corporate Strategies and their Structural Adjustment in Argentina*, Mc Millan Press/St. Anthony's Series, Great Britain, 2000.

the expense of the generation of local adaptive efforts. This meant a lower gap in terms of product technologies, but a significant loss in the acquisition of domestic capacities by means of research and development activities. However, the strong incorporation of imported machines and equipment was necessarily accompanied by organisational changes and a higher training investment. Likewise, the trend towards the horizontality of the production basically strengthened through the incorporation of imported parts and pieces, reducing the probability to create production networks based on domestic subcontracting.

In short, the main elements characterising the performance of microeconomics in the 1990s are a reduction of the number of production sites, an increase in the degree of commercial opening (with an emphasis on imports), an investment process based on the acquisition of imported equipment, an increase in the concentration and the foreign nature of the economy and a sharp drop of the value added rate. Likewise, there was a major adoption of product technologies at a 'technological frontier' level and from a foreign origin, an abandonment of most of domestic technological efforts in the generation of new products and processes, a horizontality of activities based on the substitution of local value added for external supply, a reduction in the production mix with a higher complementation of external offer, a growing externalisation of activities of the service sector, a higher internationalisation of firms and the importance of commercial regional agreements in corporate strategies. But perhaps the most outstanding trait of the production design in the 1990s is heterogeneity. There is no doubt that not all the economic agents elaborated in the same way the challenge posed by the transition from 'a workshop to a company': new production strategies where local production combined with the import of inputs and end-use goods, with the purpose of taking advantage of the new rules of the economic game.

During the last years the return to the extreme volatility of the environment led production and investment decisions to be seriously affected and led to growing doubts regarding the financial standing of a large group of companies. The current problems of the Argentine economy still cause remarkable financial and commercial disruptions. The negative consequences at the entrepreneurial level are still expanding and it is not quite clear which the prevailing responses from economic agents will be in view of the return to a high macroeconomic uncertainty.

The debate on industrial policy

The possibility of attaining increasingly high levels of competitiveness and maintaining them in the long term cannot be limited to the action of a single individual economic agent. International experience shows that successful cases are due to a whole set of variables and that it is the overall functioning of the system which makes it possible to achieve a solid base for developing competitiveness. Thus, the systemic notion of competitiveness takes the place of individual efforts, which, although they are a necessary condition for attaining this objective, must necessarily be accompanied by innumerable other aspects which form the surrounding environment of firms (ranging from the physical infrastructure, the

scientific and technological apparatus, the network of suppliers and subcontractors and the systems of distribution and marketing, to cultural values, institutions and the legal framework). Competitiveness which is sustainable in the long term can only be attained through systematic efforts to acquire comparative advantages and to consolidate an 'ongoing endogenous process' covering all the above aspects, simultaneously defining the responsibilities of the entrepreneur within his industrial plant and the conditions making up its environment, including both other private agents and the public sector.

This systemic notion of competitiveness is valid for each of the markets concerned. Consequently, it must be applied both to export and potential import markets. Latin American experience has shown that it has been possible to expand various types of production, but sometimes on clearly weak bases. These forms of competitiveness have been described as 'spurious'⁹ (because they did not progress in the acquisition of comparative advantages but were based instead on one or more of the following factors: low wages, processing of natural resources without preserving the environment, excessively high exchange rates, recessions in the local market, excessive protection of inefficient local production sectors against imports, high export subsidies, etc. These faulty forms of competition gave rise to fragile individual successes but were incompatible with benefits of a social nature. Such successes could not be maintained in the long term and eventually ran into crises due to the performance of the firms in question and/or the high social costs involved.

Industrial progress and the attainment of the strategic objectives pursued will depend on the capacity and creativeness of governments in designing and implementing actions best adapted—in terms of time, intensity and coverage—to the patterns of behaviour of the various economic agents. The design, formulation and implementation of active, explicit and transparent government policies, together with their necessary incorporation in a long-term strategic concept, will call for harmonious and coordinated action by public bodies, as well as suitable linkages with short-term policies. It will also be essential to redefine the necessary 'institutional engineering'. The weakness and even technical fragility of the State structures means that efforts must be focused on actions whose transparency facilitates the necessary subsequent evaluation of their results. In this sense, the possibilities of developing and implementing selective policies are limited and conditioned by the fragility of the public sector.

The implementation of industrial policies must include some clear basic criteria. In particular, such policies must be explicit, active, and as general and neutral as possible. They must also give priority to actions which will have the greatest effect in terms of propelling the economy as a whole and spreading positive externalities through it. With regard to this latter

⁹ See Fajnzylber, F., *Industrialización en América Latina: de la 'caja negra' al 'casillero vacío'*, Cuadernos de la CEPAL, N° 60, Santiago de Chile, 1989.

point, the consolidation of infrastructure and the upgrading of human capital are two of the most important aspects.¹⁰

The proposal of an explicit policy must necessarily be associated with a prior and subsequent social evaluation, the calculation of the corresponding budgetary implications (especially who is to receive resources and who is to finance them), the assurance of total transparency, the clear and precise definition and quantification of objectives, and a clear time sequence with promotional elements which should preferably go down over time. It is therefore necessary that there should be a system of rewards, but also one of penalties if the promised objectives are not attained.

These aspects are of vital importance for achieving the desired objectives. There are countless examples of countries which began to support the process of maturity of infant industries, but without achieving final success. There is no doubt that the problems involved in selecting the right sectors and techniques are by no means insignificant, but appraisal of these cases has shown that one of the most crucial aspects is connected with the fact that learning processes do not take place automatically with time but are instead the result of deliberate and explicit efforts to generate stocks of technology and train human resources. It is therefore necessary to implement a suitable technological and production strategy associated with investments aimed at generating or adopting ongoing technical changes in order to bring about a process of maturity which is neither automatic nor instantaneous but calls for ongoing deliberate efforts.

Based on these evaluation criteria of the industrial policy and foreign trade, Argentina is challenged to go further as far as competitiveness is concerned. The fields of activity are numerous and are interrelated, and only four of the most important ones will be mentioned: 1) the progress towards the industrialisation process of 'very diverse' products with a higher added value; 2) the co-ordination of production networks that provide a 'critical mass' to industrialisation; 3) the assessment based on the 'industrial logic' of some aspects of the privatisation process, and 4) the deeper analysis of 'horizontal' policies, particularly in the qualification of human resources and in the co-ordination of a 'national innovative system'.

Argentina has been remarkably increasing its natural resources during the last 25 years,¹¹ particularly: 1) through the agricultural improvement—represented by an increase in the soy production—; 2) the energy development—indicated by the discovery of gas reserves as the most outstanding fact—; 3) the exploitation of fishing resources;

¹⁰ See French Davis, R., 'Ventajas comparativas dinámicas: un planteamiento neoestructuralista'; Teubal, M., 'Lineamientos para una política de desarrollo industrial y tecnológico. La aplicabilidad del concepto de las distorsiones del mercado', both in *Elementos para el diseño de políticas industriales y tecnológicas en América Latina*, Cuadernos de la CEPAL, N° 63, 1990.

¹¹ This growth of the existence of natural resources differs from its virtual stagnation during the 1930-1970 period. In the eighties this dynamism raised the question of the need to have a new viability of an agriculture-exporting model—now with the addition of energy resources—that the new conditions of the international scene have made unfeasible.

4) the development of forest activities thanks to unexpired fiscal credits, and 5) some perspectives as far as mining resources is concerned. Also, the most significant change of the industrial structure during the eighties is the development, according to international standards, of various plants of intermediate inputs from the iron and steel industries, the petrochemical and aluminium sectors, etc. The combination of both structural changes considerably increases the factor endowment and that of a new and very promising starting point in the economy. However, the new international conditions clearly indicate the loss of importance of homogeneous, undifferentiated and low-value-added products, which severely translates into their price drop. But on the basis of those products it is possible to move forward in the production line and add technical progress, skilled labour and added value, developing various fringes where special and differentiated products are manufactured. The development of productions based on the availability of resources and the intensive use of technological capabilities and human resources may be fundamental elements to boost exports and create new employment opportunities.

The progress towards differentiation sets out the second field of activity mentioned above. The sustained development of a competitive industry calls for systemic actions providing the necessary critical mass for an active integration into the international division of labour, which involves: 1) the different production activities, and 2) the different economic agents. Competitive systems are based upon complexes with increasingly indefinite limits among primary, industrial and service activities. Goods should be the result of an elaboration process of a co-ordinated and efficient production line so that they may compete. Also, the participation of the different types of companies is a key point. It is very difficult to move forward in specialisation fringes and have a 'macroeconomic impact' without the participation of the most important companies (transnational companies and huge economic groups). But at the same time there is no successful industrial experience that had not developed a network of efficient small and medium-size companies—in which their efforts should be concentrated—, that in most cases are represented by specialised suppliers and subcontractors who allow the promotion of competitive organisations simultaneously based on the development of economies of scale and of flexible specialisation.¹²

The qualification of human resources—denoted by the strengthening of the weak educational system, the co-ordination with the production system and the deepening of qualification efforts carried out by companies—together with the development of 'a national innovative system'¹³ that institutionally fits in with the technological demands of an economy confronted with the challenge of competitiveness, are two inevitable mainstays. Likewise, there are a lot of problems shared by organisations,

¹² See Gatto, F. and Yogue, G., *Las Pymes argentinas en una etapa de transición productiva y tecnológica*, Fundación Volkswagen/CEPAL Project, Buenos Aires, 1993.

¹³ See Bisang, R., *Industrialización e incorporación del progreso técnico. Hacia la articulación de un sistema nacional de innovación*, Fundación Volkswagen/CEPAL Project, Buenos Aires, 1993.

particularly small and medium-size companies, which call for systematic policies, which need more managerial than budgetary efforts. Among these efforts we may underline the following: the widespread use of quality management criteria, the development of subcontracting networks, training programs for businessmen on business management, the widespread use of automation technologies, the assessment of environmental regulations and the adequacy of technical regulations. The hard challenge of competitiveness concentrates specifically on a new industry.