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Argentine Trade with Italy and the EU

Challenges and New Opportunities

Le relazioni commerciali dell’Argentina con l’Italia e l’Unione Europea: sfide e nuove opportunità

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1.INTRODUCTION AND MOTIVATION

The purpose of this work is analyzing the trade relations between Argentina and Italy while identifying the niches that represent trade opportunities for both countries. All of this, within the framework of a potential Free Trade Agreement between the EU and the Mercosur. The timing could not be more appropriate for this proposal:

Argentina has ended a political and economic cycle with peculiar characteristics and its present shows a very clear agenda that intent on bringing Argentina back into the international community.

On Friday 22nd April, 2016, Argentina paid 9.3 billion dollars to the holdouts, including the Italians represented by Nicola Stock[1], and left behind fifteen years of default.

The symbolic meaning of the date goes far beyond the country re-entering the international financial markets after 15 years of isolation. It marks the end of two intertwined cycles:

a) The growth cycle, fueled first by the rising international prices of commodities and later, when this bonanza began to fade out, by government spending financed by Central Bank money creation. This "unorthodox" economic policy, as it has been termed, brought Argentina to the current recession and in need of a sharp monetary (30% inflation) and fiscal (7% budget deficit) adjustment.

b) The populist political cycle, dominated since 2003 by the Kirchner family, centered on an isolationist view of the country perceived as under attack by political and financial external powers, and characterized by a sharp rise of insecurity, illegal activities and widespread corruption.

The 2015 election saw the (somewhat unexpected) victory of Mauricio Macri, the former governor of Buenos Aires and his "Cambiemos" political coalition, with a very different political and economic policy agenda, aimed at the re-insertion of Argentina in the world

[1] President of Task Force Argentina (TFA) which groups together 50,000 Italians retail investors. Bondholders that had remained unpaid after 2001 default. Argentina defaulted on US$100 billion of debt in 2002 and Italian investors' holdings accounted for 30% of all the debt that was subject to legal claims in a US federal court and 15%of the defaulted debt that was not restructured in 2005 and 2010.

community, and at the stabilization of the economy seen as a pre-requisite to attract foreign investment to re-start a virtuous circle of productivity and income growth.

The focus on Italy comes from three considerations:

a) The historical blood and cultural ties of the Argentinian people with Italy make the latter a place to which Argentinians look with special interest;

b) The widespread presence of SMEs in Argentina makes Italy the ideal partner to look at to upgrade their domestic and international competitiveness through technology transfers and intra-industry trade;

c) The repute of Italian companies in the fields of infrastructure and exploitation of natural resources give Argentina a head start in this new phase of rebuilding the country announced by the new government.

The plan of the work is as follows. Chapter 2 summarizes the latest Argentinian economic cycle, the present economic situation of the country and the policy options. Chapter 3 reviews the links between Mercosur-UE and a potential free trade agreement between them; Chapter 4 highlights the Argentinian trade and exchange rate policy with a special focus on the years after 2010, when the declining surplus of the balance of payments induced the Kirchner government to multiply discretionary controls on imports and currency restrictions, to the present partial policy reversal. Chapter 5 analyses the last years trade flows between Argentina on one side and Italy on the other, taking into account the recent twin economic crises (albeit for different reasons) of the areas on the two sides of the Atlantic and the distortions induced by the restrictive trade measures adopted by the Kirchner government. Chapter 6 draws some conclusions and tries to pinpoint some areas where increased cooperation looms more fruitful.

2. ARGENTINA'S LATEST ECONOMIC CYCLES
LA DÉCADA GANADA

To get a better knowledge of Argentina country, this chapter focused on the recent economic history of the country as a way to understand how it will enter this new cycle from 2015 onwards and how it will relate with Italy and the European Union. Thus, this chapter makes a brief summary outlining the country itself and the policies that have been taken during the last two decades, making a special remark on the last ten years of Kirchner administration. It will provide a general state of the country, the measures taken and the main events that have stroke on its economy.

2.1 **Argentina's secular growth: a brief overview**

With a territory more than the half of Europe, rich in natural resources (both agricultural and mineral/energy),a relatively small (40 million inhabitants), white (98%), young and educated population (mostly of Italian and Hispanic descent) the south American country was considered one of the World's richest nations at the beginning of the XX° century. At present, its income per capita is about half of EU and Italy. Thus, Argentina growth has been somewhat disappointing, especially in the last 60 years. Figure 2.1 shows Argentina GDP per capita growth over the last two centuries, in comparison with the evolution of that of EU and Italy. The figure shows, the unusual case of Argentina. As Campos (2014) states ¨Argentina is the only country in the world that was 'developed' in 1900 and 'developing' in 2000¨ or like the famous economist, Simon Kuznets, stated: ¨There are four kinds of countries: developed, underdeveloped, Japan and Argentina¨ trying to describe how puzzling Argentina was for economists. Kuznets thought so because at times of the First World War, Argentina was one of the richest nations of the world but from that moment began its relative decline compared to the rich countries of Western Europe and North America, and in the 70s and 80s became a decline in absolute terms.

In the 43 years leading up to 1914, GDP had grown at an annual rate of 6%, the fastest recorded in the world. The country was a magnet for European immigrants, who flocked to find work on the fertile pampas, where crops and cattle were propelling Argentina's expansion. In 1914 half of Buenos Aires's population was foreign-born. The country ranked among the ten richest in the world, after the likes of Australia, Britain and the United States, but ahead of France, Germany and Italy. Its income per head was 92% of the average of 16 rich economies. From this vantage point, it looked down its nose at its neighbours: Brazil's population was less than a quarter as well-off.

It never got better than this. Although Argentina has had periods of robust growth in the past century—not least during the commodity boom of the past ten years—and its people remain wealthier than most Latin Americans, its standing as one of the world's most vibrant economies is a distant memory. Its income per head is now 43% of those same 16 rich economies; and behind its neighbours Chile and Uruguay.

Getting back to what the figure shows in comparison with the EU and Italy: the GDP per capita of the country only doubled in 60 years while Italy's GDP grew three times from in that period and that of EU growth is four times.

Campos (2014) enhances the analysis trying to set the cause of the Argentinian failure. In his work[2], he suggest six competing explanations for it: a) trade openness b) macroeconomic instability, c) institutional change, d) domestic financial development, and e) international financial integration.

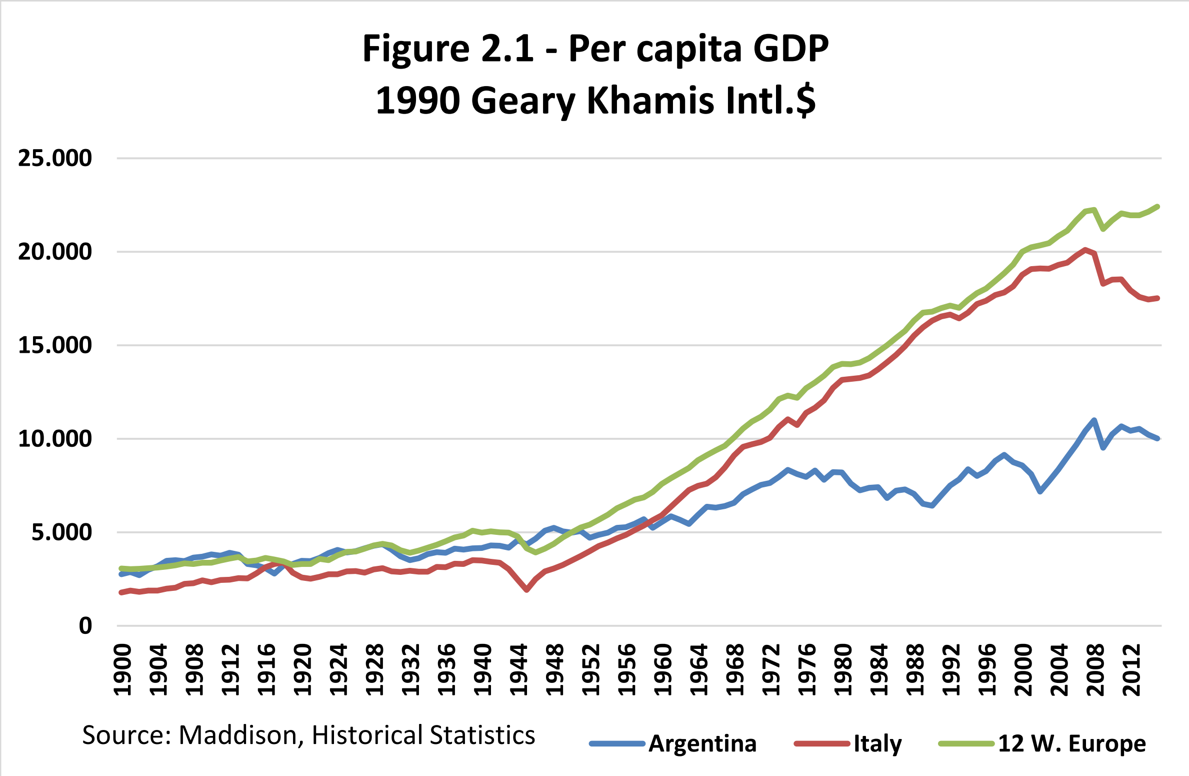
One reason that has received considerable attention is increased competition in international markets (especially from Australia, New Zealand, and Canada) during and after WWI and the concomitant decline in migration and foreign capital inflows. Finance has also received a

[2] Campos, Nauro F (2014) A century of stagnation: Insights from the economic history of Argentina. http://www.voxeu.org/article/riddle-argentina

great deal of attention with the Argentine decline linked to low savings rates and associated high population dependency rates (Taylor 1992). A key role has also been attributed to international financial integration as there may have been excessive dependence on one source of foreign capital (U.K.) with changes in global leadership (U.S.) contributing substantially to the Argentine decline (Taylor 1998).

Another well-researched reason is trade openness (Diaz-Alejandro 1985). The ratio of exports and imports to GDP in Argentina exceeded 50% in the pre-WWI period, declined throughout the inter-wars years (from about 45% to 20%), and practically did not exceed 25% after 1945. It is still debated whether this was driven by the disruption of international trade during WWI and the Great Depression, or by the adoption of protectionist policies by successive Argentinean governments.

In his work he also gathers some explanations that argue that macroeconomic policies in general – and their inconsistency and the resulting macroeconomic instability in particular – are also to blame. (Della Paolera et al. (2003). At his final conclusions, he points out that institutions do matter but among them, political institutions and financial institutions seem fulcral. Argentina's fall, he states, is better explained by institutional change – informal political instability has a negative direct effect and negative short- and long-run impacts on growth, while formal political instability has equally significant and negative indirect growth effects (Campos et al. 2012)



Source: Maddison, Historical Statistics

In the last 25 years, Argentina experienced two «boom and bust» cycles. The two cycles are very different in terms of International framework and orientation of Argentine Governments' economic policy.

The first one, The Neo-Liberal Cycle, as many economists named it, related to the period 1991-2001, began after the ending of a repressive military regime, and with the return of democracy restored by President Raúl Alfonsín. It began right after the worst inflation crisis the country had the hyperinflation crisis.[3]

[3] The Argentine economy has a long history of experiencing trouble with prolonged high inflation rates. In 1989, Argentina experienced an hyperinflation crisis as a result of bad economic policies, which led to an inflation rate of 257%. The hyperinflation crisis caused protests, riots, looting and a general decline of the government popularity among the public. The hyperinflation crisis had also taken place in the middle of the presidential elections, which led to the governing party to lose the elections.

The Neo-Liberal Cycle 1991-2001

To tackle hyperinflation, and restore money credibility, in 1991 the Menem Government launched the Convertibility Plan that rested on two pillars: a currency board that pegged the new Argentinian currency, the peso, to a one to one exchange rate with the US dollar along with a vast scale privatization program. As a result, inflation rates decreased nearly to 0% but these policies ended with a catastrophic economic crisis in 2001. Pegging the Argentinian peso to the US dollar to bring down inflation led to an appreciation of the Real Exchange Rate which undermined the country competitiveness but prevent Argentina of take advantage of Monetary Policy.

The Failure of the Convertibility Plan was caused by a combination of inner and external conditions:

1. An Appreciated Real Exchange Rate

2. Increasing Public Debt

3. International Interest rate increase due to Tequila and Russian Crisis

4. The Brazilian Crisis and the great real devaluation that followed

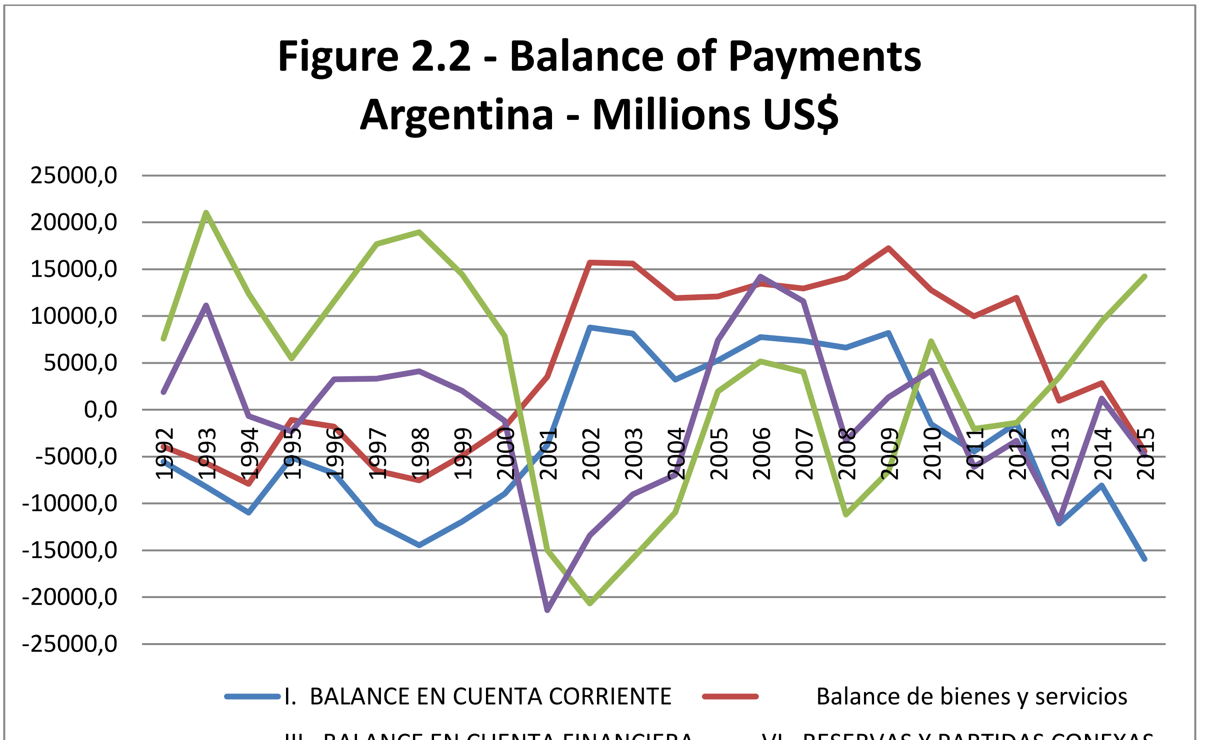
5. Lack of Monetary Policy

All through the Nineties Argentina ran a trade deficit, and a government debt that increased sharply. Unwilling or unable to raise taxes, and precluded from printing money by the currency board system, the government's only way to finance its increasing budget deficit was to issue bonds in the capital markets. Many of the bond issues were denominated in foreign currency.

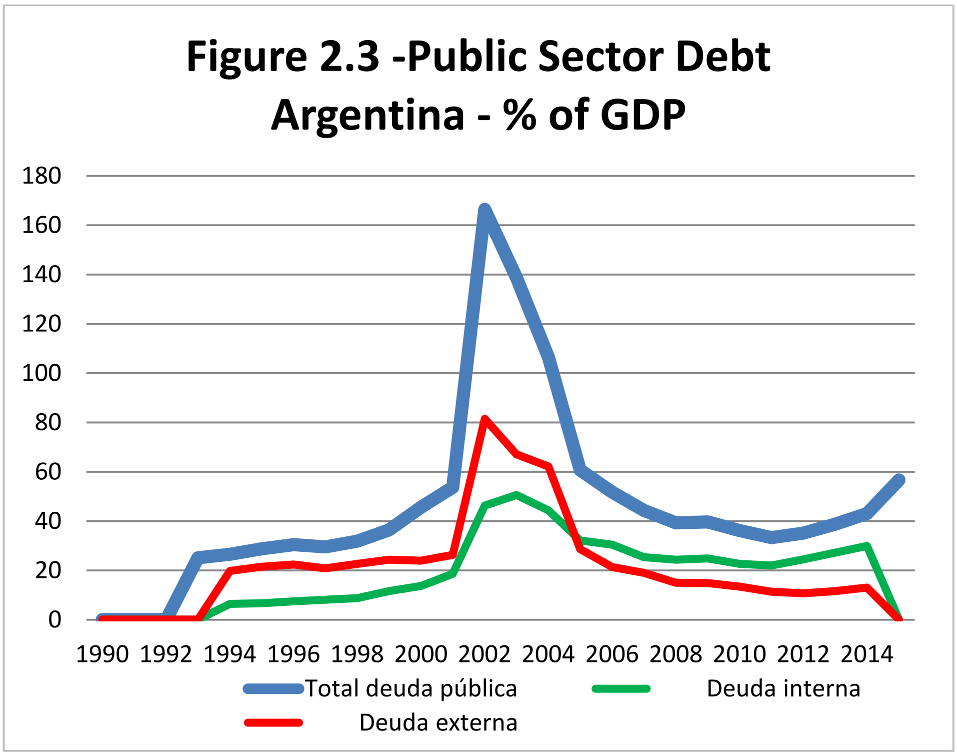
This factor and the existence of adverse external conditions sealed the failure of the Convertibility Plan.The Mexican crisis of 1994-1995 and the ensuing 1997 Asian and 1998 Russian financial crises increased interest rates worsening the current account deficit.[4] To make matters worse, the Brazilian crisis in 1999 (Argentina’s main trade partner), severely hit the country exports, that were already suffering from the low price of commodities on the world market, and an appreciated exchange rate against the US dollar.

[4] Public debt increased sharply from 29.5% of GDP in 1993 to 50.3% in 1999

Figure 2.2 and 2.3 reflect this general scenario described: an increasing public debt along with an unsustainable balance of payment.



Source: CEPAL



Attempts to debt consolidation and IMF rescue plans and loans failed, between 1998 and 2001, to revert a rapidly deteriorating financial situation. The budget restrictions policies imposed by IMF only deepened the recession and the government was forced to establish what was called ¨Corralito[5]¨, which was a measure to limit the increasing and endless capital withdrawals from Argentinian banks. This measure was set on November 30, 2001 and limited cash withdrawal to 250 US$/ARG$ per week per person.

[5] Corralito was the informal name for the economic measures taken in Argentina at the end of 2001 by Minister of Economy Domingo Cavallo in order to stop a bank run, and which were fully in force for one year. The corralito almost completely froze bank accounts and forbade withdrawals from U.S. dollar-denominated accounts.The Spanish word corralito is the diminutive form of corral, which means "corral, animal pen, enclosure"; the diminutive is used in the sense of "small enclosure".This expressive name alludes to the restrictions imposed by the measure.

The economic situation could not be any worse and by the end of 2001, the country ended declaring the default[6] of it external debt. That is, officially announced that could not afford the payments of the loans it had taken and bonds it had issued. After this, Argentina's economy went into a chaos. Foreign investment fled the country, and capital flows toward Argentina ceased almost completely from 2001 to 2003. The currency exchange rate (formerly a fixed 1-to-1 parity between the Argentine peso and the U.S. dollar) was floated, and the peso devalued quickly to nearly 4-to-1, producing a sudden rise in inflation to over 40% and a fall in real GDP of 11% in 2002. As mentioned before, the fly-to-quality caused a deathblow to the banking system that mostly bore long run loas in dollars but holding savings in pesos. The measure name ¨ Corralito¨, mainly mean a wide transfer of resources from deposit holders to the save the banking system.

Many economists has looked for an interpretation of the convertibility collapse. For Damil et al (2012), the roots of the breakdown was set on the combination of an overvalued real exchange rate (RER) and the high levels of foreign debt. The former resulted from the stabilization program instrumented in 1991 in which a currency board was a central element. The latter was to a great extent inherited from the 1970s and 1980s: total foreign debt was equivalent to about 5 years of exports at the beginning of the 1990s and this ratio remained virtually unchanged all along the convertibility years (1991-2001). This combination of factors made the economy vulnerable to negative external shocks, because the currency board made impossible to absorb shocks via nominal exchange rate adjustments. Given this macroeconomic setting, the adjustment had to come via economic contraction and price and wage deflation. In the wake of the South East Asian crises, the signs of external vulnerability made foreign credit substantially more expensive and scarce. This put the economy in a “financial trap”. Given the high level of foreign debt and the inability to correct RER overvaluation via nominal devaluation, capital inflows began to decelerate. This led to an increase in domestic interest rates and the contraction of credit and economic

[6] On December 26, 2001, Argentina defaulted on a total of US$93 billion of its external debt; of around $81.8 billion in bonds that were defaulted, 51% were issued during between 1998 and 2001.

activity. The authorities got trap in this financial trap, not being able to monetary tools and the collapse eventually occurred.

2.2 **La “década ganada” 2002-2015**

A country in default is excluded from the international capital markets and can count almost exclusively on the exports[7] and not debt creating flows of the balance of payments (FDI, migrants’ remittances etc.) to finance imports and other international payments.

Obviously currency devaluations can help but they also raise the cost of imports. It is paradoxical and almost ironical that Argentina defaulted just when a strong worldwide commodity cycle was gaining momentum.

The Second Cycle, named in Spanish ¨ la decada ganada¨ took place from 2002 and 2011, because of the international super cycle that affected commodities prices. Figure 2.4 shows the evolution of commodities prices between 1993 to actual days.

2.4 Evolution of commodities prices between 1993 to actual days.

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[7] Argentina was also helped, by the Venezuelan president, Hugo Chavez who lend to the Argentinian government 1000 m USD at an interest rate of 15%.

The commodities super cycle was the rise, and fall, of many physical commodity prices (such as those of food stuffs, oil, metals, chemicals, fuels and the like) which occurred during the first decade of this century (2000-2011), following the Great Commodities Depression of the 1980s and 1990s. The boom was largely due to the rising demand from emerging markets such as the BRIC countries, particularly China during the period from 1992 to 2013, as well as the result of concerns over long-term supply availability There was a sharp down-turn in prices during 2008 and early 2009 as a result of the credit crunch and sovereign debt crisis, but prices began to rise as demand recovered from late 2009 to mid-2010.

The commodity cycle benefited Argentina in two ways:

a) Directly, increasing the trade balance surplus. Argentina was and still is one of main export countries of soybeans, wheat, maize and other commodities and commodity-price driven agricultural products, and

b) Indirectly, through the industrial exports to its main Mercosur partner, Brazil, which economy was being equally blessed by the commodities' boom. Figure 2.5 shows the trade surplus recovery from the year 2000 onwards.

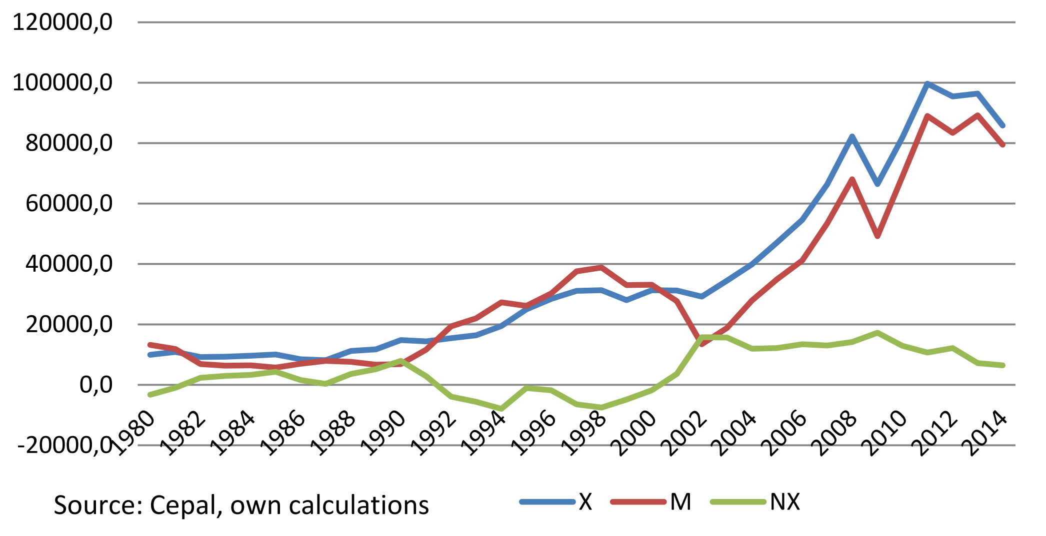
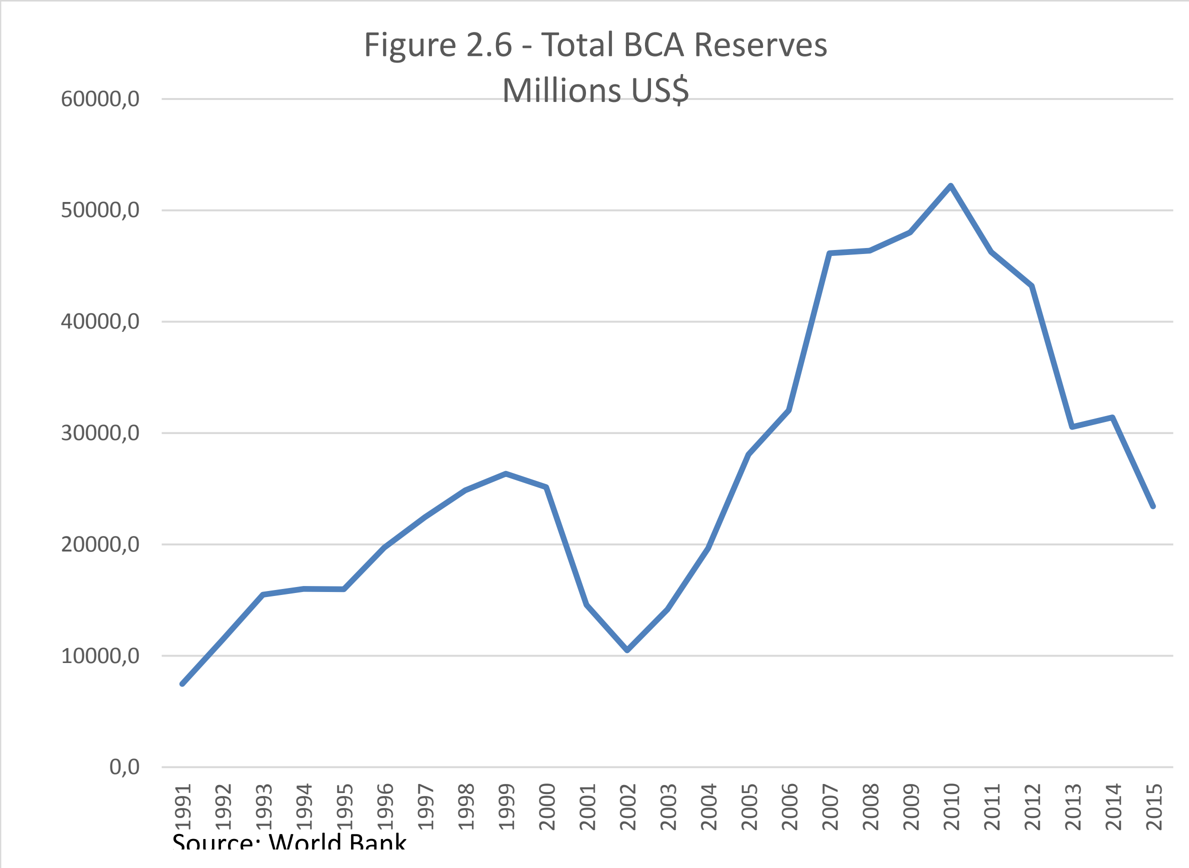


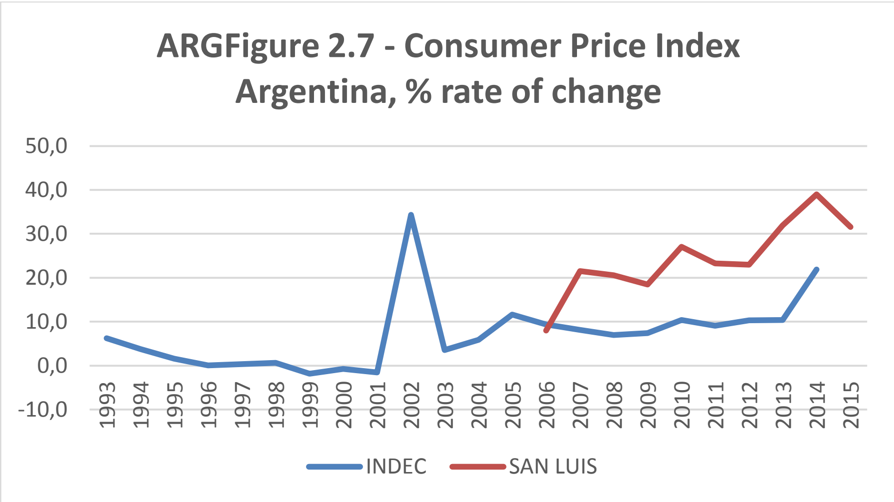
Figure 2.5 -Trade Balance Argentina - Millions US$

The currency devaluation, together with the unused production capacity left by the 2001 crisis and the freeze on subsidy tariffs of electricity, gas, fuel and salaries, allows Argentina to perform a remarkably recovery, with real GDP growth close to 8% per year between 2003 and 2007.

As a consequence this improvement in the trade balance led to a sharp increase in the Central Bank total reserves (see Figure 2.6), that allowed the president Kirchner's government to repay in cash, on January 3, 2006, the IMF loan for 9.5 billion US$, part of which was due in 2007 and 2008. It allowed also resuming interest payments on a first tranche of debt restructuring in 2005.



By 2007, with a regained full employment and the growing inflow of dollars from export to be changed in pesos, inflation began to increase, particularly because of the increase in government spending that ambitious social plans provoked. Kirchner presidency started to intervene on the Consumer Price Index on the grounds that a country with a record of hyperinflation was like a drunkard gone dry. Tasting spirit again brings him back to the old vice. In Figure 2.6 it is show this manipulation of consumer price index. On one hand, the increases in prices was measured by the national statistics agency (Indec), suspected to be managed by the presidency itself. On the other hand, other public and private measures or indexes came out (San Luis Index), showing the gap between the measures, or the measures and reality (Figure 2.7)



In the following years, the Cristina Kirchner government conducted a very expansionary fiscal policy and the Central Bank (BCRA) provided the money needed for the implementation of this policy, thru issue of new money. Together with some political economy distortions, the restrictions on imports and, later, extreme exchange-rate controls, generated an acceleration of inflation to an annual double-digit rate, and later to a black market for foreign currency.

2.3 **The End of the Commodity Cycle**

Since 2011, with the end of the commodity cycle, the macroeconomic framework of the country turned for the worse and the contradictions of Argentine «unorthodox economic policy» took its toll in terms of country growth. At the same time, growing public deficits were generated to sustain aggregate demand through fueling consumption. The Cristina Kirchner government relied increasingly on an overvalued nominal exchange rate and on export restrictions to control inflation and on discretionary import and currency restrictions to maintain a vital surplus of the trade balance and limit the withering of foreign currency reserves. These measures are analyzed in detail in Chapter 4.

The failure of Populist Cycle of Kirchner was caused by:

- *The End of Commodity Cycle*
- *A growing inflation caused by printing money unbacked in real economic growth.*
- *A underappreciated currency against the dollar.*
- *A growing and endless fiscal deficit.*
- *A lack of investments in real economy*

In the end the ruling PJ party lost the 2015 presidential elections ending a 12 years of Kirchner (Nestor and then his wife Cristina) presidency, leaving behind an array of time bombs, namely:

- Four years of stagnation of real GDP growth;
- Inflation close to 30%;
- Public budget deficit close to 7% of GDP;
- An overvalued nominal exchange rate, with an unofficial (blue) exchange rate close to 60% higher than the official one;
- An unresolved fight with holdouts bond holders that had brought the country into technical default through a ruling of an American judge and therefore more excluded than ever from the International financial markets;
- Disappearing foreign currency reserves.

2.5 The Change of Regime

The new Government of President Mauricio Macri set out swiftly to do what had promised during a bitter election campaign, that is, devaluating the peso, put an end to the multiple exchange rate regime; solving out the lawsuit with the holdouts bond holders as a way to re-enter the international financial markets, and making a profound tax reform that modifies taxable bases (particularly on income taxes), that had remained frozen since 2003 as a way to lighten the burden on the public budget. All of this, without cutting out the wide net of social protection established for more vulnerable social class.

The new Government was fast and successful in carrying out these measures, but not without paying a high price: inflation fuelled by devaluation expectations.

Public deficit is expected to be in the order of 6% for the current year and the real economy is expected to be in recession for not a short period.

The Government is counting on a decrease of inflation rate for the second semester 2016, thanks to a cautious Central Bank restrictive monetary policy and to boost economic activity through a public investment national plan, financed through loans on international markets. In other terms, the new government is shifting from a domestic-consumption driven growth model (policy of preceding government) to an investment-driven growth model (for which it trusts in the industrial sector and business men in and out Argentina). The bet is that flows of investments attracted by the change of inner conditions (more pro-market focused model) will trade off inflation with international indebtedness.

The measures taken for the government focused to reopen the country to foreign investment includes, so far, a bunch of ongoing issues:

- Ending the so-called holdouts problem.
- Devaluating the currency so that exports are more competitive and remove currency controls to eliminate the parallel ‘blue dollar‘;

– Changing the central bank’s charter to make it politically independent with a mandate to keep inflation low;
– Cutting export taxes not only on agricultural but also industrial goods
– Reduce government spending, especially on energy subsidies, to reduce the budget deficit and bring inflation down;
– Re-establish links with the IMF so that Argentina can receive financing
– Reform statistics office INDEC, to return credibility to official data and correct one of the outgoing government’s biggest mistakes.

Whether this bet will be a winning one is too early to say. However, although international financing doesn’t seem a problem for the moment, the cost in terms of interest rates that Argentina is paying is very high, between 7 and 8%[8] in comparison with the average rate of indebtedness other countries, even neighbors as Uruguay and Paraguay are getting.

3. MERCOSUR AND EU

This present chapter describes the framework of trade relations between Argentina and Italy. Thus, outlining the trade relationship kept between Mercosur and EU, the two economic blocs to where each country belongs. It aims to get a clear understanding of the Mercosur first, its relationship with Europe and then the issues involved in a potential future agreement EU-MERCOSUR.

3.1 The Mercosur

[8] Actually most of the Argentinian provinces got external funding, with successful bonds subscriptions but at rates no smaller than 7% in dollars. As a matter of fact, regarding emissions already made, Córdoba earned US $ 725 million in a title five years at a rate of 7.125% , Neuquen captured U $ S 235 million in 12-year bonds at 8.625 % , Mendoza received US $ 500 million a role to 8 years with a rate of 8.375 % , Chubut placed debt of US $ 50 million a rate of 8.8%. Buenos Aires placed $ 890 million to US 7.6 %.

The Southern Common Market (MERCOSUR) is a regional integration process initially established by Argentina, Brazil, Paraguay and Uruguay which in later phases have joined Venezuela and Bolivia, the latter in the accession process.

It was created in the year 1991 by the treaty of Asuncion to promote the free movement of goods, services and people among member states. Mercosur's primary interest had been eliminating obstacles to regional trade, such as high tariffs and income inequalities. It last member, Venezuela, was fully admitted in July 2012 as its fifth member with complete access to the common market and voting rights.

Mercosur was established with the primary goal of creating a customs union and common market, much like the EU. According to its founding treaty signed in Asunción, Paraguay, the core objective of Mercosur was coordinating trade policy and facilitating the free movement of goods, services and factors of production by means of the complete elimination of customs duties and non-tariff barriers between members. As member countries, the status of a said country can be the incorporation as core or full member or as associative member country.

The full member countries committed to:

- Setting a common external tariff (CET), a tariff that members impose on imports to the bloc by non-members;
- Coordinating macro-economic policies including but not limited to foreign trade,
- Harmonization of industry, agricultural, fiscal and monetary matters;
- Harmonization of national legislation to help ensure coordinated domestic policies regarding trade competition and other relevant issues.

Currently, it has six associate members: Chile, Colombia, Ecuador, and Peru, Guyana and Surinam. The status of an associative country implies:

- To enjoy full voting rights or complete access to the markets of Mercosur's full members.

- To receive tariff reductions and the possibility of joining free-trade agreements
- No obligation to impose the common external tariff that applies to full Mercosur members.
- To remain outside the bloc's customs union.

Of these countries, Bolivia has recently acquired full membership[9]. Moves to include Chile as a full member were suspended after Santiago signed a free-trade deal with the US in 2002.

Mercosur in figures

Comprising more than half of South America, the bloc represents a total population of almost 300 million individuals, living in an area larger than the total surface of the European continent, covering more than 12 million square kilometres.
According to a 2014 United Nation's report, it has a GDP of $4.58 billion (82 % of total GDP in South America) and more than 275 million people (nearly 70 % of South America).
It is the world's fourth-largest trading bloc after the European Union (EU), North American Free Trade Agreement (NAFTA), and the Association of South East Asian Nations (ASEAN).
Brazil has a territory of 8.5 million square kilometres and 201 million inhabitants. Is is the largest economy. Argentina, the second largest MERCOSUR nation, has 2.8 million square kilometres and a population of 41 million inhabitants. Paraguay (6.8 million people) and Uruguay, (3.4 million inhabitants) are the smaller original members.

Figure 3.1: Mercosur in figures

[9] Venezuela became the first Latin American state to adhere to the Treaty in 2006 , and more recently Bolivia , in 2015.The Protocol of Accession of Bolivia to Mercosur was signed by all States Parties in 2015 and is now in the process of incorporation by the Congress of States Parties .

Historical background

A short while after the creation of the European Coal and Steel Community (1954) and the European Economic Community (1957), Latin America was already beginning to take its first steps towards regional integration. The treaty that created the Latin American Free Trade Association (ALALC), signed in 1960, provided for the creation of a free-trade zone, by means of periodical and selective negotiations between its member states. This choice-negotiation at the discretion of the member states rather than automatic reduction of import duties, made the ALALC trade opening program develop reasonably well in its first years, but lost impetus and almost came to a complete standstill in the 70's.

The Latin American Integration Association (ALADI), was created in 1980 to replace ALALC, used other means to attempt member state integration. In place of the free-trade zone established by ALALC, an economic preference zone was established creating favourable conditions for bilateral initiatives. ALADI thus made possible agreements and joint actions between countries. The establishment of a common market, however, was still the long-term objective.

Under the ALADI system, Brazil and Argentina signed in 1986, twelve commercial protocols. To supplement and improve on their former agreements, Brazil and Argentina signed in 1988 a Treaty for Integration, Cooperation and Development that set the stage for a common market between the two countries within ten years. It included the gradual elimination of all tariff barriers and the harmonization of macroeconomic policies. This agreement was opened to all other Latin American countries.

After the adhesion of Paraguay and Uruguay a new treaty was signed by all four countries on March 26, 1991 in Asuncion, Paraguay. It created of a common market among the four participants, which would be known as the Southern Common Market (MERCOSUR).

Institutional Structure

In this part, it is mentioned the two main bodies thru which the bloc operates:

a) Common Market Council

The Council is the highest-level agency of MERCOSUR with authority to conduct its policy, and responsibility for compliance with the goals set forth in Asuncion Treaty. The Council is comprised of the Ministers of Foreign Affairs and the Economy (or the equivalent) of all six countries. Member states preside over the Council in rotating alphabetical order, for 6-month periods. As for the decision making, the Council decisions shall be made by consensus, with representation of all member states.

b) Common Market Group

The Common Market Group is the executive body of MERCOSUR, and is coordinated by the Ministries of Foreign Affairs of the member states. Its basic purposes are to cause compliance with the Asuncion Treaty and to take resolutions required for implementation of Common Market Council decisions.

Mechanism

At the very beginning, it was established a trade opening program targeted the end of duties and other nontariff restrictions on trade. Argentina and Brazil should complied this by December 31, 1994, and by December 31, 1995 was the case for Uruguay and Paraguay. Duties included customs rights and any other tariff. The program also included Nontariff restrictions[10]. While a non-tariff zone was created among the members, the common market included the establishment of a common external tariff (CET) for extra-community imports.

Lifting of Duties and List of Exceptions

A general lifting of duties and other nontariff restrictions were taken however allowed each nation to have a list of exceptions considering "sensitive" economic sectors. Products included on these lists were initially excluded from the schedules for trade opening. These exceptions to CET sought to ensure weaker nations (Paraguay and Uruguay) a longer term to adapt. Nowadays, still does exist an extensive list of exceptions to CET and to completely free intra-bloc tariff.

Actual Status of Integration

Many authors have written about the real status of integration Mercosur has got. As Bouzas (2002) stated, an according the integration category provided by the Hungarian economist Bela Balassa (1961) despite its primarily aim of constituting a common free market, Mercosur only reached the level of performing a custom union. Still, going deep into the definition of this category, Mercosur is a custom union not even completed at the present.

Thus, Mercosur failed in complying with many of the main characteristics needed to perform a custom union:

- It does not have a common customs law effective in all members' countries.

[10] Non tariff restrictions are any measures taken unilaterally by a member state to impede or hamper mutual trading.

— It does not have a single, unify custom authority.
— It has many exceptions to the Common External Tariff (CET).

Part of the discussion surges from the difficulties in understanding the different realties that influence the dynamics of this trade bloc. In the case of Mercosur, its founding members set out the goal to achieve a customs union as a previous step to a common market, but the degree of integration the bloc got since its inception is not clear. Nonetheless, Mercosur has spurred trade, and the incorporation of member countries despite the imperfect implementation of its accords.

Intentions, Agreements and Expectations

Mercosur is an open and expanding trade bloc. To date, Mercosur has established "associate" free trade agreements with Chile (1996), Bolivia (1997), Peru (2004), and Venezuela (2004), and has given Mexico "observer status" with the expectation of achieving an associate agreement in the near future. The bloc has also signed an associate accord with the countries of the Andean Community[11]. These associate agreements allow the negotiation of preferential access to markets without the commitment to other policies such as CET or economic policy coordination. Mercosur has also signed what are called "Associate Agreements Framework" with countries outside Latin America. The most important of this kind had had with the EU in 1995 and, more recent, in 2004 with India and Egypt. As part of its continual expansion, Mercosur also signed a preferential trade act with the Southern African Customs Union (SACU) setting some fixed tariffs as the first step to create a future free trade area.

The Record

While Mercosur is an imperfect trading bloc, it has brought tangible benefits for its member countries. WTO figures show an overall positive growth trend for member countries since

[11] Bolivia, Colombia, Ecuador and Peru.

the bloc's inception. According to the latest WTO numbers, Mercosur member countries' intra-regional trade in 1990 was $4.1 billion while external trade with the rest of the world was $42 billion. In 2003, Mercosur intra-regional trade increased to $12.2 billion and the bloc's trade with the rest of the world reached $93.3 billion. This represents a 207 percent rise in intra-regional trade and a 122 percent increase in trade with the rest of the world since Mercosur's inception. For purpose of comparison, NAFTA experienced a smaller 172 percent increase in intra-regional trade and a 107 percent rise in trade with the world for the same time period.

However, a closer review of the figures shows less impressive GDP growth for Mercosur member countries. For example, average GDP growth in member countries from Mercosur's inception in 1991 to 2003 is well below the world average of 3.3 %. According to data from the Argentine International Economic Centre (CEI), Argentina's average GDP growth since signing the Mercosur agreement is 1,1 % while that of Brazil's is 2 %, Uruguay's 1% and Paraguay's 2.4 %. By comparison, NAFTA trade partners have experienced more positive growth since its inception in 1993 with an annual average GDP increase of 3.2 % in the United States, 3.4 % in Canada and 2.7 % in Mexico.

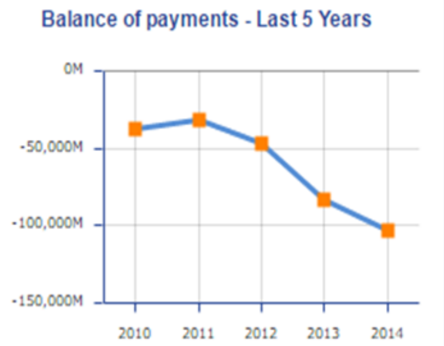
Nowadays, actual figures show a trade bloc static with no or little growth in the last decade with the intra trade descending 30 % in the last five years. Additionally, Table 3.1 and 3.2, show that despite what it may be thought, the Mercosur at the present show low intra-trade in comparison with other economic blocs, such as APEC or EU. This is not the case when we consider the analysis taking into account individual countries. The bloc's smaller countries—Bolivia, Paraguay, and Uruguay—rely more on their Mercosur counterparts for trade than the larger countries do. The share of Mercosur Trade by country it is show in Figure 3.3. Figure 3.4 shows the case of Brazil and Argentina. This bilateral relation is of highest importance. Table 3.3 states that Brazil and Argentina have the strongest commercial relations among member countries. But trade between the two is down 42 % since 2011. Similarly, Brazil and Venezuela trade fell 38 % since 2012.

Mercosur Statistics

Table 3.1 Trade and Financial Statistics

Financial Statistics

Balance of payments - Current account net of trade groups	($102,793,390,000) (2014)
Balance of payments - Current account net of trade groups (percentage of GDP)	-3.041% (2014)
Foreign direct investment - inward flows	$85,095,469,750 (2013)
Foreign direct investment - outward flows	($134,714,736) (2013)



Source: UNCTADstat

Trade Statistics

Value of intra-group trade	$51,061,970,000 (2014)
Value of intra-group trade as a percentage of total exports	13.032% (2014)
Trade group exports	$400,505,145,800 (2014)
Trade group imports	$359,475,688,975 (2014)
Trade group service exports	$60,030,000,000 (2014)
Trade group service imports	$126,970,000,000 (2014)

Source: UNCTAD stat

Table 3.2 Mercosur Intra group trade

Value of intra-group trade (exports in millions of dollars)

Rank	Trade Bloc	Value
1	APEC	$6,193,956
2	European Union	$3,843,796
3	TPP	$2,080,868
4	NAFTA	$1,250,677
5	APTA	$366,776
6	ASEAN	$327,091
7	Arab League	$133,654
8	GCC	$60,855
9	Mercosur	$51,062
10	SADC	$39,510
11	SAARC	$26,153
12	ECOWAS	$12,378
13	COMESA	$10,454
14	CAN	$9,833
15	CEFTA	$4.703

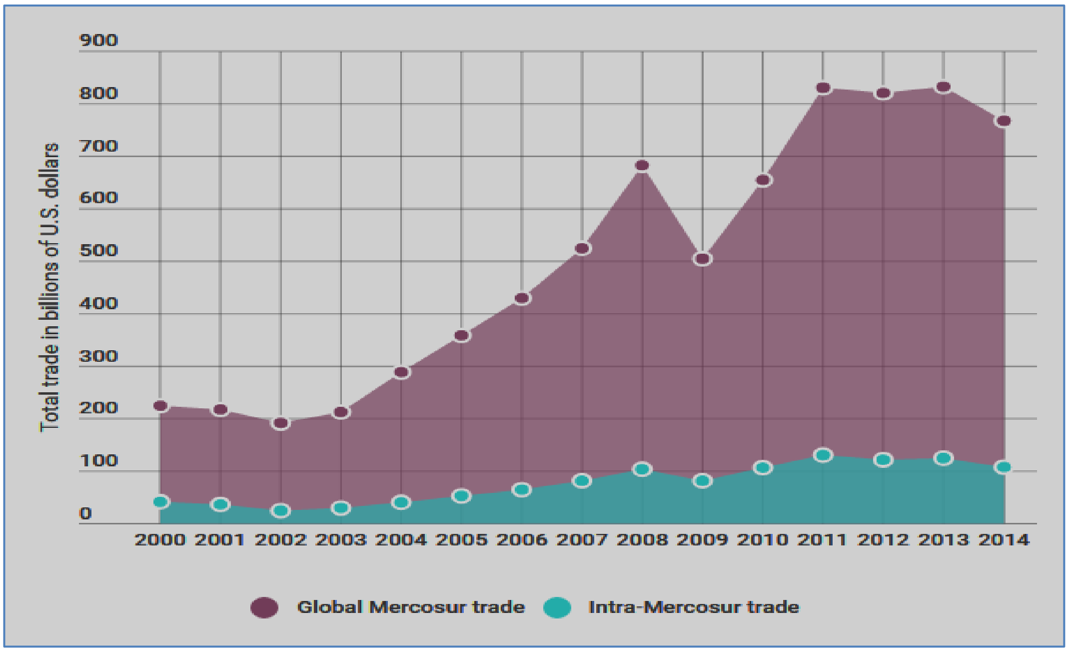
Intra-group trade as a percentage of total exports

Rank	Trade Bloc	Value
1	APEC	68.09 %
2	European Union	62.61 %
3	NAFTA	50.23 %
4	TPP	47.55 %
5	ASEAN	25.26 %
6	SADC	19.34 %
7	EAC	18.37 %
8	CEFTA	15.23 %
9	OECS	14.94 %
10	CARICOM	14.50 %
11	Mercosur	13.03 %
12	APTA	11.19 %
13	COMESA	11.00 %
14	Arab League	10.40 %
15	ECOWAS	8.92 %

Source: UNCTADstat for the year 2014

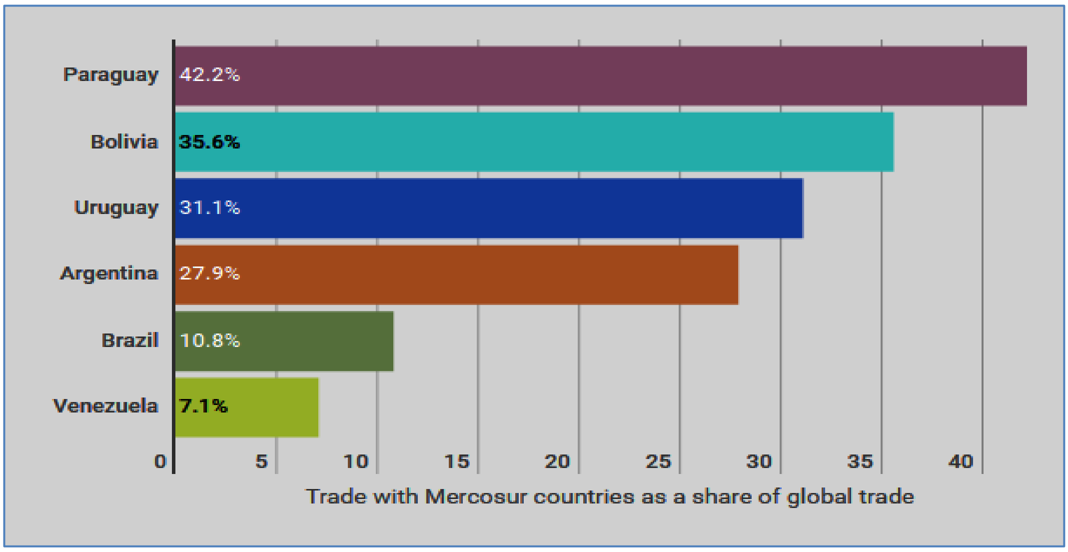
As shows in Figure 3.2, Mercosur countries traded $ 768 billion worth of imports and export globally in 2014 but trade within the bloc made up 14 % of that sum.

Figure 3.2 Mercosur globally and intra trade



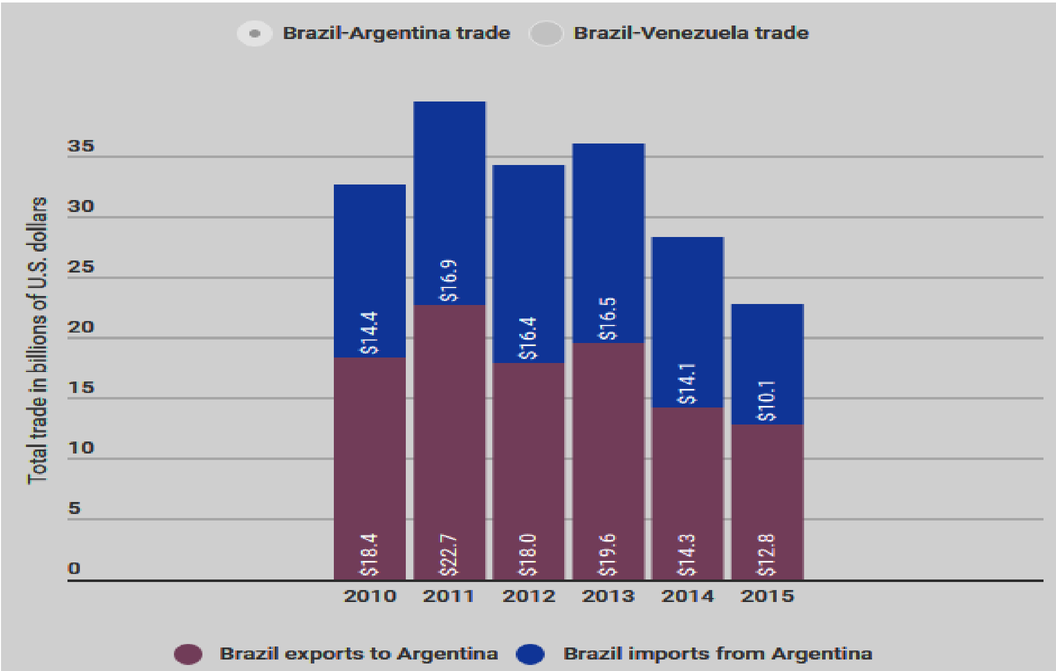
Sources: Inter-American Development Bank, UN Comtrade Database, and the World Trade Organization. AS/COA Online Copyright.

Figure 3.3 The share of Mercosur Trade by country in 2014



Sources: Inter-American Development Bank, UN Comtrade Database, and the World Trade Organization. AS/COA Online Copyright.

Figure 3.4: Brazil: Ties with Argentina

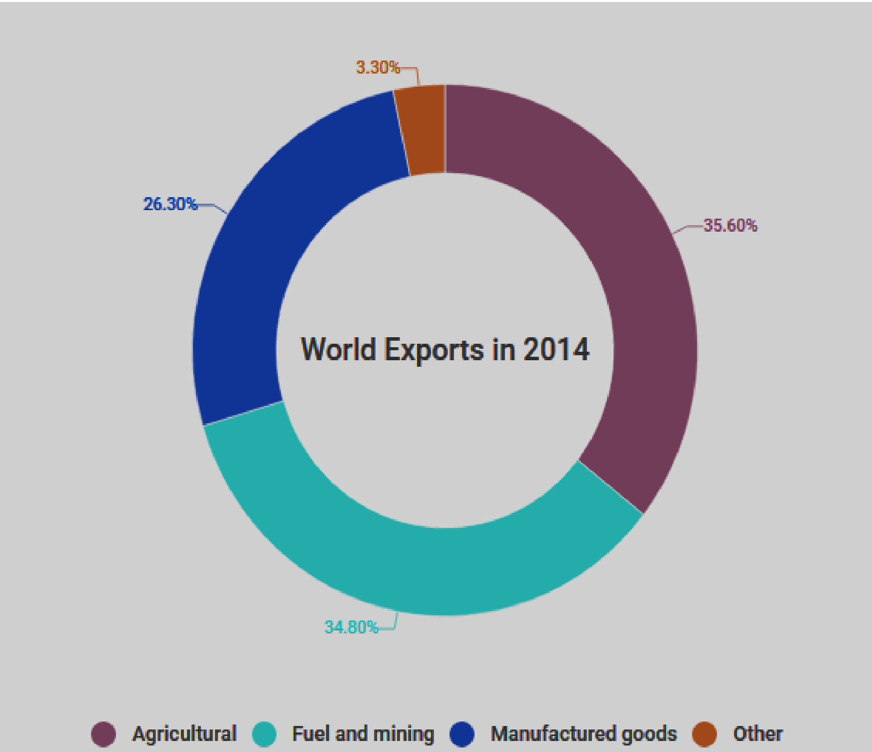


Sources: Inter-American Development Bank, UN Comtrade Database, and the World Trade Organization. AS/COA Online Copyright.

Mercosur Exports

Mercosur trades more agricultural products than any other bloc globally. But within the bloc, manufactured goods make up 56 % of exports. As an example, figure 3.5 counts the record for year 2014.

Figure 3.5 Mercosur Exports outside the bloc



Sources: Inter-American Development Bank, UN Comtrade Database, and the World Trade Organization. AS/COA Online Copyright.

Mercosur Main partners:

Table 3.3 describes Mercosur main trade partners. The EU appears to be the first trading partner, accounting for 19,2 % of Mercosur's total trade in 2014. On the contrary, Mercosur is the 8th most important export market for the EU (2015 data), representing only 2,7% of all EU exports, but EU's exports to the region have steadily increased over the last years, going up from € 28 billion in 2007 to €57 billion in 2013. (EU Comission, 2016)

Mercosur's biggest exports to the EU consist of agricultural products (43% of total exports) and raw materials (28%), while the EU mostly exports manufactured products to Mercosur and notably machinery and transport equipment (46% of total exports) and chemicals (22% of total exports) [data of 2013].

The EU is also a major exporter of commercial services to Mercosur (€18.5 billion in 2012), as well as the biggest foreign investor in the region, with a stock of foreign direct investment that has steadily increased over the past years and which amounted to €280 billion in 2012 compared to € 130 billion in 2000.

Table 3.3. EU and Mercosur main partners

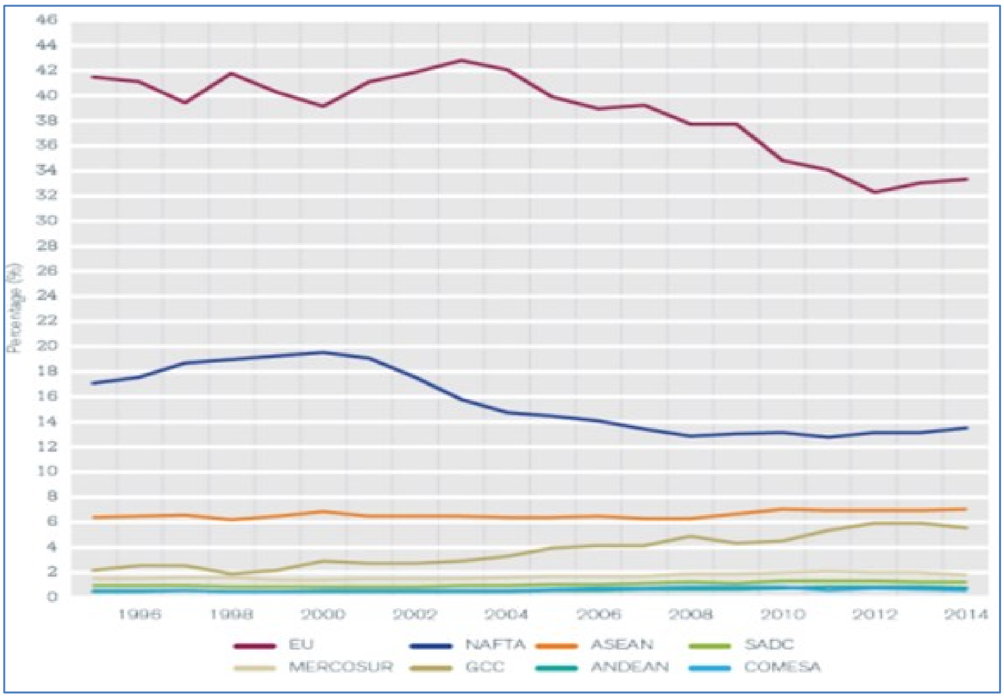
Total Trade (Imports + Exports)					
Mercosur5, 2014			EU28, 2015		
Partner	Millions €	%	Partner	Millions €	% Extra EU
World	507.476,00	100	World	3.518.659,00	100
1 EU28	97.555,00	19,2	1 USA	619.660,00	17,6
2 China	90.269,00	17,8	2 China	520.909,00	14,8
3 USA	88.242,00	17,4	3 Switzerland	253.199,00	7,2
4 India	21.071,00	4,2	4 Russia	209.622,00	6
5 Japan	12.360,00	2,4	5 Turkey	140.714,00	4
6 South Kor	11.610,00	2,3	6 Norway	123.128,00	3,5
7 Mexico	11.272,00	2,2	7 Japan	116.318,00	3,3
8 Chile	11.117,00	2,2	8 Mercosur	97.555,00	2,77
9 Nigeria	9.649,00	1,9	9 South Korea	90.248,00	2,6
10 Russia	8.047,00	1,6	10 India	77.589,00	2,2
Source: EU Commission 2016, own calculations					

The Mercosur and the UE

According to the WTO 2015 Report on Trade Statistics, MERCOSUR has increased their importance in world trade between 1995 and 2014, with shares in world exports rising from 1.4% to 1.7 %.

European Union, by contrast, is the largest exporter among regional trade agreements. It has consistently been the leading exporter over the past 20 years, with exports of US$ 6,162 billion representing 33%t of world trade in 2014. The North American Free Trade Agreement (NAFTA), covering Canada, Mexico and the United States, comes second with exports of US$ 2,493 billion accounting for 14 % of world trade in 2014. In Figure 3.6, it is appreciated the slight share Mercosur has in the world exports as a bloc, in contrast with the EU.

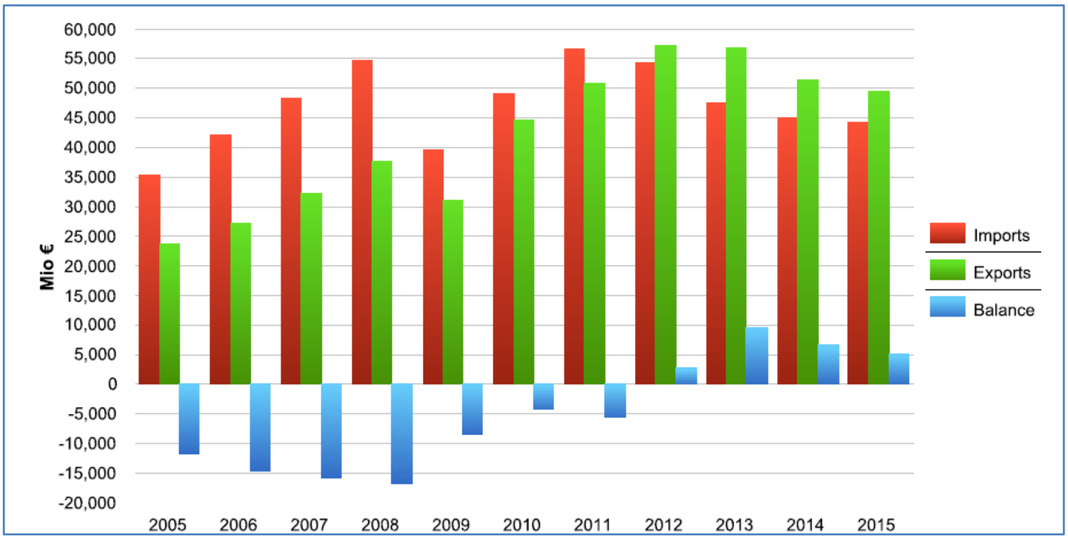
Figure 3.6: Share of RTAs´ exports in world merchandise exports, 1995-2014



The trade EU – MERCOSUR has got negative balance from the years 2005 – 2011, turning to a positive sign in favour for EU since 2012. In fact, export from the EU to Mercosur has doubled from the year 2005 to 2015.

Figure 3.7: European Union trade with Mercosur 5

Total Goods, trade flows and balance. Annual date 2005-2015



Source: EU Commision 2016

In the last ten years the composition of the export pattern has not registered substantial changes. The EU maintains its characteristic as an importer of agrifood and exporter of manufactures. As it is stated in table 3.4 for the year 2015, the 73.5% of imports in the EU were Primary products and the 86.8% exports to Mercosur countries were manufactures.

Table 3.4 EU-Mercosur trade

Imports 2015			Exports 2015		
SITC product Groups					
Product	Value Mio €	% Total	Product	Value Mio €	% Total
Primary products	32,458	73.5	Primary products	4,318	8.8
Manufactures	10,239	23.2	Manufactures	42,785	86.8
Other products	994	2.3	Other products	890	1.8
Other	499	1.1	Other	1,273	2.6

Source: European Comission 2016

The high share of agricultural food items, makes exports to the EU sensitive to the changes in international prices and little influenced by the growth of the European economy, given the lower income elasticity presented in food prices. Among this category, the main items are meat& fish products, vegetable products, foodstuff, beverages, and mineral products. Among meat and vegetable, it is almost exclusively proteins for animal feed and flours, and composed of soybean meal and sunflower meal. (Figure 3.8)

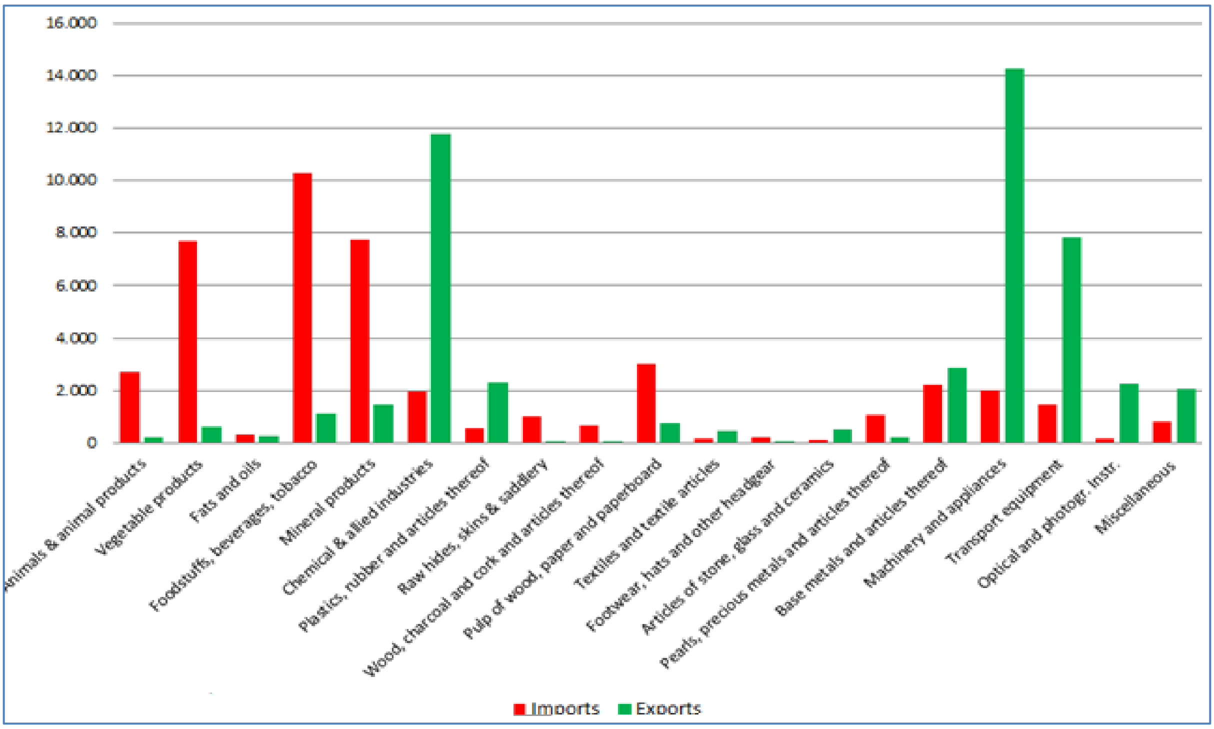
Without community demand, it would be hard to imagine the importance EU has for Mercosur export pattern. And the main cause lies in the European agricultural policy , which was while stimulating domestic meat production and protecting the agricultural sector, inducing farmers to use flour as a central part in the food of their animals (Galperin , 1999)

As for exports from EU to Mercosur, the main categories are Chemical and allied industries, machineries in general and transport equipment.

To sum up, the pattern has always been the same: Mercosur specializing in supplying the food industry in Europe and Europe selling hard technology equipment as a counterpart.

Figure 3.8 EU28 Goods trade with Mercosur 5 by HS groups

In Millions Euros 2015



Source: wits.worldbank.org/

There is another interesting way of seeing this dynamic arising between EU and Mercosur. When it comes to production of commodities, according to World Bank Database (2015)[12] , a handful of countries produce the bulk of global resources. As for commodities production, the three largest producers for 19 commodities, accounts for the 56% of world production. Argentina and Brazil are in the list of three main world commodity producers. In the case of soybean, for instance, as it is illustrated in Figure 3.9 and 3.10, both countries join the 46% of the world production and particularly Brazil has become supplier of soybeans to the EU.

[12] wits.worldbank.org/countrystats.aspx

Figure 3.9 World Productions of Soybeans and Cereals

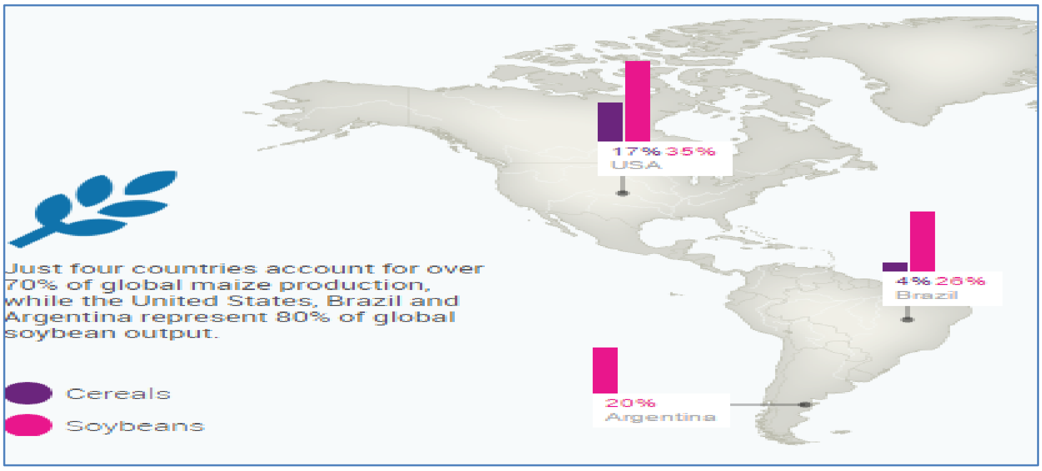
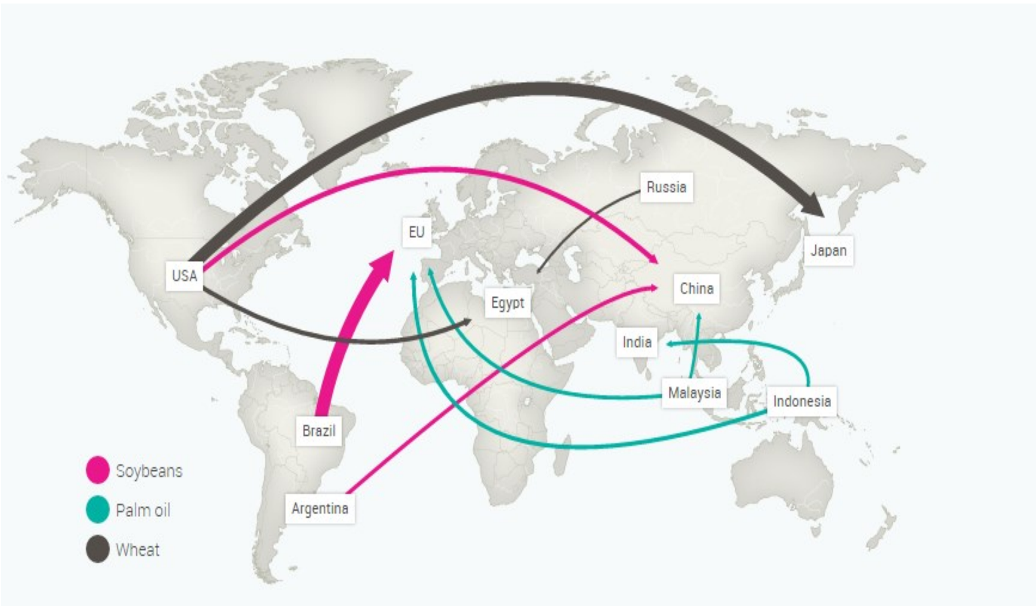


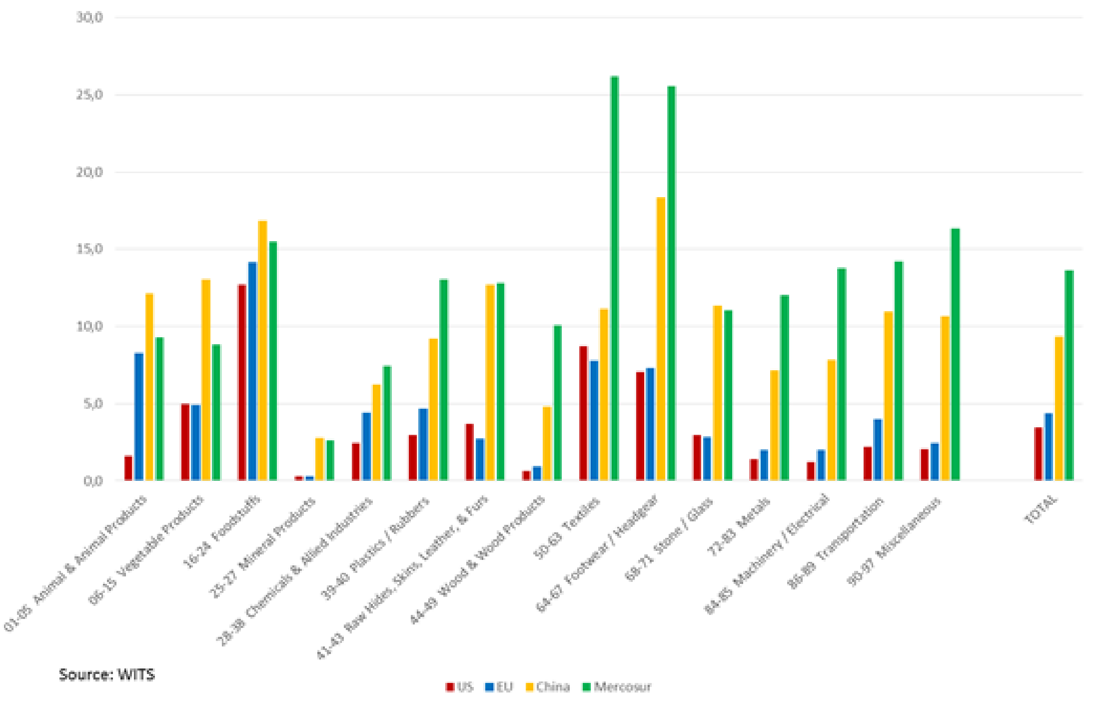
Figure 3.10 New interdependencies in traded resources



Last thing, is worth to mention, is what arises from Figure 3.11 in reference to the level of protection each bloc has set up. What it is worth to highlight is the question of applied tariff by products or goods.

As it is seen, Mercosur, present higher levels of tariff in every category, even for machinery and transportation equipment, which are the categories EU has a strong presence. Similarly, the UE, shows the highest tariff applied on Animal and vegetable products and foodstuff, the categories where Mercosur has the strongest trade.

Figure ... - Average Applied MSN Tariff by HS Sector
2014



Source: WITS

3.2 EU Mercosur Free Trade Agreement

Negotiations between MERCOSUR and the European Union are part of the complicated board of international trade negotiations in which countries try to improve their relative positions in the world market through the signing of agreements, whether at the multilateral level and at the regional level. This section analyses the evolution of the negotiations since its launch to date, trying to investigate the motivations, progress and failures over the last 20 years. Thus, going from the first part of the period since the negotiation of the Framework Agreement in 1995 to the temporary interruption in 2004, realizing the difficulties observed in the different areas that influenced decisively on the comings and goings as well as in determining the suspension of the negotiations. Then, it examines since the resumption of negotiations in 2010 to the present, considering the changes in the international arena and within each bloc. Finally, are considered some of the aspects necessary for approaching new possible scenarios in the immediate future.

MERCOSUR-EU agreement appears as a mean to consolidate a commercial and strategic investments and long-term alliance. As seen, from Mercosur´s point of view, the EU accounts for about 20% of their sales to the world, while European firms represent more than 60% of stock-based foreign investment in the region. Anyway, the way to reach an agreement does not appear to be without difficulties. The economic and political problems in MERCOSUR countries do not helped to fuel it. Similarly in Europe, an agreement requires an interesting offer to provide Services, Government Procurement and Investment as a trade-off for the opening of European agricultural markets Mercosur claims.

The productive sectors facing the prospect of an agreement

The case of MERCOSUR

The exportable supply of the Mercosur countries to the EU is determined, at least in the short and medium term, for the production capacity of agricultural products and manufactures. As it was studied, the bloc is noted for its relevance in world exports of soybeans and derivatives. It must be emphasized that the smaller Mercosur countries (Paraguay and Uruguay) are driving its economic growth by becoming strong in the production of other agricultural commodities, such as beef and certain dairy products, and others processed agricultural products. Brazil has established itself as a producer and exporter of agri-food: beef, poultry and pork; other processed agricultural products including sugar, flour, fruits and vegetables as inputs; traditional products such as cocoa, coffee and bananas; and not less relevant, production of dairies. In some of these areas, Brazil is among the leading exporters in the world.

Since these products are facing greater restrictions to access the European market, in the case of MERCOSUR the main benefits of an agreement with the EU would be the lifting not only of import duties, but also other non-tariff restrictions in force and applied in these areas[13].

If MERCOSUR gets success on this, the agreement could generate new investments and create a virtuous circle with added value to goods exported to the EU as well as technological improvements, that increased productivity and broader the current exports.

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[13] http://capreform.eu/wto-eu-trade-policy-review-2013/
WTO EU Trade Policy Review 2013: The report updates information on levels of agricultural tariff protection provided to EU farmers to 2013. Calculating average levels of protection is an exercise fraught with difficulties for a number of reasons, including the fact that for many agricultural products the EU makes use of specific duties (that is, fixed as an absolute amount) as well as ad valorem tariffs (that is, fixed in percentage terms). Overall, MFN applied tariffs (that is, the tariffs applied to imports of agricultural commodities (WTO definition) which are not eligible for a preferential tariff rate) fell from 17.8 percent in 2008 to 15.2 percent in 2011 and to 14.8 percent in 2013. Mostly this was due to the effect of increasing world prices reducing the ad valorem equivalent of the specific tariffs. Interestingly, MFN applied rates on non-agricultural products rose slightly over this period (from 4.0 percent to 4.1 percent to 4.4 percent, respectively). The report points out that, by and large, EU farm producer prices are now very close to world market prices, which suggests that these very high tariffs are largely redundant in providing protection to EU producers. However, they still prevent third countries from competing on the EU market in these products, and thus are trade-restricting.
Reducing these tariffs is part of the agenda of the stalled Doha Round of trade negotiations.

Industrial goods, meanwhile, presents a situation of greater complexity and heterogeneity throughout the MERCOSUR. The production structure of industrial goods from Argentina and Brazil is very different from that present in Paraguay or Uruguay. Larger economies produce fairly diversified assets in a number of different sectors. Despite the differences between manufacture industries, the industrial private sector in Argentina and Brazil has expressed fear and resistance against an agreement with the EU. This position is based on the high competitiveness Europe has on this sector, in general terms. Manufacturing, by the way, appeared to be one of the most protected products in the South American bloc.

One of the sectors where greater resistance to opening was showed, is automotive, where some specific complexities exist. On the one hand, the automotive industry was always excluded from free trade even within MERCOSUR: the exchange of vehicles and parts within the bloc is regulated by bilateral agreements that allow free import tariffs as long as certain proportional parameters remain, such us percentage of origin and quotas. Most of the MERCOSUR automotive trade takes place between Argentina and Brazil and a significant portion corresponds to intra-firm trade, highlighting the presence of terminals companies of European origin in both countries. On the other hand, Argentina and Brazil do not have enough production to supply terminals and auto parts, so companies has to import from the rest of the world, mainly from the EU, US, Japan and China. While both countries are in deficit in auto parts trade, Argentina imported proportionately more from Brazil and the latter from outside the region.

Still, on this sector, there is no clear scenario that describes how the agreement would modify the trade intra-bloc.

The case of UE

Many specialists agreed that Industrial products might be the biggest beneficiaries of the agreement from the EU point of view, followed by service activities. In contrast, the agricultural sector could suffer a significant stroke. Indeed, the EU has comparative advantages in most manufacturing sectors, especially pharmaceuticals, chemicals, machinery and equipment, and motor vehicles and other transport equipment. Overall, the EU is more competitive in segments of skilled labour and high quality products. This technological advantage of the EU related to the high added value of its manufactured exports (86%), contrasts with countries like China, South Korea, Japan and the United States, who need to acquire intermediate foreign goods of high-tech from EU. (European Commission, 2014).

The interest of European industry in the agreement with MERCOSUR not only lies in its competitiveness against MERCOSUR, but the need to reactivate activities that in many cases have not fully recovered from the crisis of 2008 and face competition from other emerging economies, particularly China. (Messerlin, P., 2013)

The bi-regional agreement is also of interest for European service companies since the liberalization of trade with MERCOSUR could offer important opportunities for environmental, professional and business services, particularly subsectors of finance and telecommunications.

The position of the agricultural sector is totally different from the industry and services. As it is analysed in Chapter V, these activities are less competitive in the EU than in the MERCOSUR and the situation became more complex after the incorporation of Eastern Europe countries. In this context, European farmers began to exert increasing pressure on the Commission not to grant concessions in the field. In March 2011 the European Parliament adopted a highly critical report into the trade negotiations between the EU and

MERCOSUR considering that could be very damaging to EU producers in a context of crisis. The need for a prior impact study before concluding the negotiations arose.

During the re launch of negotiations in 2010, several EU countries, among which were France, Ireland, Greece, Hungary, Austria, Luxembourg, Poland and Finland, presented a document to the Council of the EU to express opposition to an agreement out of the Doha Round that would involve further concessions in agriculture. In turn, they stated that their farmers compete on unequal terms by having to comply with standards and quality standards, health, environment and animal health stricter than those of Mercosur.

The recent impact studies (European Commission, 2012) show a contraction in the agricultural sector in general, both in production and employment. This would particularly affect Poland, Italy, Spain, France and Hungary, which represent about two thirds of the total agricultural work of the EU.

If liberalization is not mitigated by appropriate support programs or other policy measures, this adjustment process can lead to negative social impacts locally. The EU is one of the world's leading producers of cereals (except rice and corn), sugar, certain fruits and vegetables, meat and dairy products. Mercosur products competition would probably feel more strongly in sugar, poultry meat, beef and fruits. Although the overall effect on agricultural production in the EU might be negative, the liberalization of imports from MERCOSUR would be beneficial for some EU products such as wine, olive oil and alcohol.

3.3 Mercosur-UE: The negotiations at present

The future of the negotiations is very uncertain, much so, that some specialist interpret it as impossible to solve. The desirable agreement between the two regional integration schemes has so far a completely unaccomplished goal. Since two decades ago when bi-regional negotiations began, some major changes occurred in the two blocks of integration as well as in the international scene that have transformed the board of negotiation. The analysis in

this section is intended to study the causes that led to the blockade of the agreement for years, while performing a prospective onto the future.
Negotiations formally started in 2000 with a long history of previous contacts behind. But, beyond expectations, difficulties soon emerged between the parties, still present, which have prevented from formalizing an agreement satisfactory to all. The negotiations were suspended in 2004 unfinished and since then, the talks are stalled waiting the end of the Doha Round. For a long time the dialogue was suspended at the prospect of a quick end to the Doha Round but the failure of the global initiative promoted the idea of resuming the bi-regional agreement again, seen by many as necessary. However, despite having held several rounds of negotiations between 2010 and 2012, the signing of the Treaty is still perceived unreachable.
It is very difficult to explain the reasons for the blockade, since all the actors initially involved expressed willingness to quickly close a deal. But when it go into the details it becomes more difficult to achieve concrete results. While Mercosur countries concentrate their efforts on denouncing the CAP (Common Agricultural Policy) and the closing of European markets for their agricultural products, the EU complain about protectionism in services and manufacturing markets in Mercosur. The omnipresence of China as one of the main Players in Latin America, forced EU to react. In general terms it can be sited many reasons for this delay that includes: the extension of Mercosur countries, the existing deadlock between partners, the Argentina situation of recent years (including the expropriation of YPF) and the EU crisis.

UE obstacles:

In the EU, the biggest obstacles are the defenders of the CAP, beginning with France, but following by others as Ireland, Austria and Italy. Spain is in a particular situation, because while its diplomacy defends the closure of the Mercosur Treaty, the Spanish agricultural

sectors claims the contrary. With Europe facing a crisis and recession, a Regional Trade Agreement with Mercosur might be a good stimulus for its exports, seeking in Brazil and Mexico, the two largest countries emerging in the region, strong markets for their products.
The causes of failure can be found on both sides. An overview in the relationship EU has with the world and Latin America and Mercosur has with the world can help to understand more the development of process.
The EU has signed numerous treaties and Multiparty Association Agreements, including free trade agreements. With Latin America it has signed treaties with Mexico, Chile and Central America plus Panama and Multiparty Agreements with Colombia and Peru. Meanwhile, the results of Mercosur are more limited, since it has only signed three TLC (the first with Israel in 2007 and, more recently, with Egypt in 2010 and Palestine in 2011). It has also Economic Complementation Agreements with the Andean Community, Chile and Mexico. Mercosur rules prevent Member States to negotiate with third countries independently, as happened in Uruguay in 2004 when intended to get a preferential trading agreement with US.
In recent times, the bi-regional relationship has ceased to be a priority for both parties but the presence of China as a major player in Latin America, especially in Mercosur, changed the dynamics of trade between the EU and Mercosur. Soybean exports from the four countries of Mercosur are one of the pillars that sustained growth in recent years, especially in Argentina, Paraguay and Uruguay, as well as in Brazil. In this product, although EU is important, China is the main destination.
The signals emerging from the EU side show that there is a large concentration of political will, and economic interest in the TTIP[14] with the US. This has drawn all the attention and the main efforts and the Mercosur issue has been left aside.

In short, in the EU, the causes that blocked the agreement could be pointed as follows:

[14] Transatlantic Trade and Investment Partnership (TTIP)

- ✓ The expansion of EU, which involved moving from a Union of 15 in 1995 when bi-regional negotiations began, to 25 in 2004, 27 in 2007 and 28 in 2013. This process became more complex the mechanisms of decision-making, and lowered the interest in Latin America.
- ✓ The prevailing of the CAP, despite its 2003 reform.
- ✓ The economic and debt crisis in the Eurozone and the future of the euro.
- ✓ The concentration in an agreement TTIP (EU - USA)

Meanwhile, in Mercosur it is found a number of obstacles too:

- ✓ The blockade of Mercosur and disputes between large countries (Argentina and Brazil) and small ones (Paraguay and Uruguay), showed the absence of an adequate disputes resolution mechanism and exposed the limits of Brazilian leadership.
- ✓ The Protectionism Argentina has shown in the last ten years, which had a negative impact on Mercosur partners.
- ✓ Venezuela's incorporation has generated internal resistance and caused a shift in the integration agenda in detriment of creating a free trade area.
- ✓ The impeachment of President Lugo and the temporary suspension of Paraguay from Mercosur also contributed to slow progress on a possible EU agreement MERCOSUR[15].

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[15] Fernando Lugo, elected President of Paraguay in 2008, was impeached and removed from office by the Congress of Paraguay in June 2012. A number of Latin American governments declared the proceeding was effectively a coup d'etat. Lugo himself formally accepted the impeachment, but called it a "parliamentary coup".

With a look into the future

Brazil has signed strategic alliances with EU, but still it is not clear the importance the country poses to its relationship with the EU and how much is willing to sacrifice the relation with its partners. However, Brazilian authorities are aware that since 2014 both Brazil and Argentina are excluded from the GSP (Generalised System of Preferences) and to minimize its impact would be appropriate to close a treaty with the EU.

In Argentina meanwhile, the change of government in December 2015 and the recent visits to the country by the Prime Minister of Italy, Matteo Renzi and the President of France Francois Hollande, placed again foreign policy in the foreground. In this context, negotiations between MERCOSUR and the EU regained prominence. This means a major change in the country's vision of this bi-regional agreement. President Macri described as strategic and priority. It is true that Argentina has accompanied the negotiations since they began in 2000 through the construction process of the new offer of MERCOSUR in 2015 (opening of trade in goods, services, investment, and government procurement). However, the position of recent years prioritized the domestic agenda above international, hindering decisive progress.

The agreement with MERCOSUR has lost some relevance in the European agenda too, partly due to the uncertainty about the scope of offers but also due to the greater concentration Europe showed in the Transatlantic Partnership Agreement on Trade and Investment. By contrast, relations with the EU remained under privileged attention for most of MERCOSUR countries other than Argentina (from Uruguay, Brazil and Paraguay). The change of administration in Argentina ended to consolidating a common position. Argentina's change of government and agenda are positive signs for the European interest.

4. ARGENTINA TRADE AND EXCHANGE RATE POLICY

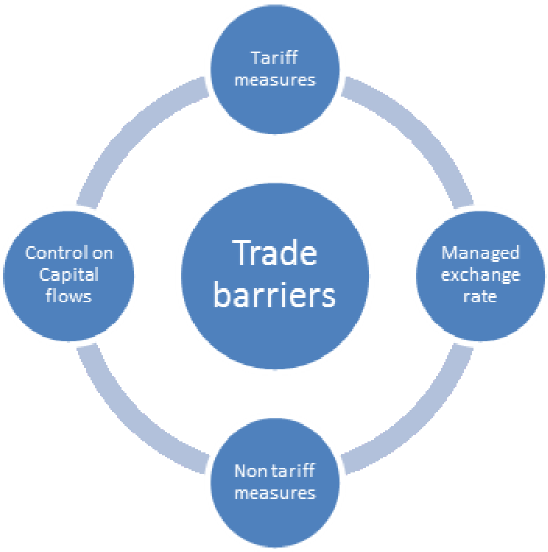
This chapter describes Argentina trade policy and exchange rate policy for the last decade. The trade policy in Argentina could be differentiated into two periods: from 1990 with the convertibility rule as it was described in Chapter II, and the free trade pattern that governs that decade until the year 2001 on the one hand and the protectionist twist that ruled the country from 2002 until the last change of government at the end of 2015, on the other hand. It is of particular interest, the changes occurred in the country from 2002 onward, particularly in reference to how this changes and measures implemented affected the flows of trade.

In the last decade, hence, the country gave birth to a vast number of measures affecting its foreign trade known as “managed foreign trade.” The aim of these new rules, all of them consisting of some kind of trade barriers in both sides of trade: imports and exports, was to face different macroeconomics problems that the economy started to show, particularly from the year 2006. These main disorders as were detailed in Chapter II[16] were the increasing inflation for domestic prices that started to strike the economy from 2007 and the difficulties in the balance of payments being more evident from 2010 onwards.

The group of measures to manage the foreign trade implied a significant increase in the regulation of goods and capital flows and had two aspects: a formal part, written rules, and not written factual matters as well. All in all, they included tariff restrictions, non-tariffs restrictions and control measures on exchange rate and capital flows.

Figure 4.1. Type of measures adopted

[16] In 1990, Argentina implemented a fixed exchange rate system (labelled "convertibility") to put an end to hyperinflation.



Source: Prepared by the author

Tariff measures:

A form of restrictive trade imposing a tariff on imports of certain products.

Non-tariff measures:

Non-tariff measures are generally defined as policy measures other than ordinary customs tariffs that can potentially have an economic effect on international trade in goods, changing quantities traded, or prices or both (UNCTAD/DITC/TAB/2009/3). Since this definition is broad, in this work it is taken a detailed classification proposed by the UNCTAD[17] .

In this classification the UNCTAD combined as a non-tariff measure: technical measures, non-technical ones and the restrictions or measures on capital flows and exchange rate (defining the latter as financial measures).

[17] United Nations Conference on Trade and Development.

CLASSIFICATION OF NON-TARIFF MEASURES[18]

FEBRUARY 2012 VERSION

Imports	Technical measures	A	SANITARY AND PHYTOSANITARY MEASURES
		B	TECHNICAL BARRIERS TO TRADE
		C	PRE-SHIPMENT INSPECTION AND OTHER FORMALITIES
	Non technical measures	D	CONTINGENT TRADE-PROTECTIVE MEASURES
		E	NON-AUTOMATIC LICENSING, QUOTAS, PROHIBITIONS AND QUANTITY-CONTROL MEASURES OTHER THAN FOR SPS OR TBT REASONS
		F	PRICE-CONTROL MEASURES, INCLUDING ADDITIONAL TAXES AND CHARGES
		G	FINANCE MEASURES
		H	MEASURES AFFECTING COMPETITION
		I	TRADE-RELATED INVESTMENT MEASURES
		J	DISTRIBUTION RESTRICTIONS
		K	RESTRICTIONS ON POST-SALES SERVICES
		L	SUBSIDIES (EXCLUDING EXPORT SUBSIDIES UNDER P7)
		M	GOVERNMENT PROCUREMENT RESTRICTIONS
		N	INTELLECTUAL PROPERTY
		O	RULES OF ORIGIN
	Exports	P	EXPORT-RELATED MEASURES

Technical Measures:

Among this group is worth to highlight the following:

a) Sanitary and phyto-sanitary measures: Are generally referred to as SPS. Measures that are applied to protect human or animal life from risks arising from additives, contaminants, toxins or disease-causing organisms in their food; to protect human life from plant- or animal-carried diseases; to protect animal or plant life from pests, diseases, or disease-causing organisms; to prevent or limit other damage to a country from the entry,

[18] UNCTAD-NTM Classification 2012 Version

establishment or spread of pests; and to protect biodiversity. These include measures taken to protect the health of fish and wild fauna, as well as of forests and wild flora.
It gathers measures such as restriction for substances and ensuring food safety, and those for preventing dissemination of disease or pests. Also includes all conformity-assessment measures related to food safety, such as certification, testing and inspection, and quarantine.

b) Technical barriers to trade:
Measures referring to technical regulations and procedures for assessment of conformity with technical regulations and standards. A technical regulation is a document which lays down product characteristics or their related processes and production methods, including the applicable administrative provisions, with which compliance is mandatory. It may also include or deal exclusively with terminology, symbols, packaging, marking or labelling requirements as they apply to a product, process or production method. A conformity assessment procedure is any procedure used, directly or indirectly, to determine that relevant requirements in technical regulations or standards are fulfilled; it may include, inter alia, procedures for sampling, testing and inspection; evaluation, verification and assurance of conformity; registration, accreditation and approval as well as their combinations.
It refers to measures such as labelling, standards on technical specifications and quality requirements, and other measures protecting the environment. Include measures related to technical requirements, such as certification, testing and inspection.

Non-technical measures:

Includes licensing, quotas and other quantity control measures, including Tariff rate quotas. This group also includes lists of price control measures implemented to control or affect the prices of imported goods. Among the examples are those to support the domestic price of certain products when the import prices of these goods are lower; to establish the domestic price of certain products because of price fluctuation in domestic markets, or price instability in a foreign market; or to increase or preserve tax revenue. This category also includes measures other than tariffs measures that increase the cost of imports in a similar manner (para-tariff measures). Among this group it is worth to clarify the following:

a) Contingent trade-protective measures: Are those measures implemented to counteract particular adverse effects of imports in the market of the importing country, including measures aimed at unfair foreign trade practices. They include antidumping, countervailing, and safeguard measures. Antidumping measure is a border measure applied to imports of a product from an exporter. These imports are dumped and are causing injury to the domestic industry producing a like product, or to third countries' exporters of that product.

Dumping takes place when a product is introduced into the commerce of an importing country at less than its normal value, generally where the export price of the product is less than the comparable price, in the ordinary course of trade, for the like product when destined for consumption in the exporting country. Antidumping measures may take the form of antidumping duties, or of price undertakings by the exporting firms.

b) Non-automatic Licensing, quotas and prohibitions:

Control measures generally aimed at restraining the quantity of goods that can be imported, regardless of whether they come from different sources or one specific supplier. These measures can take the form of non-automatic licensing, fixing of a predetermined quota, or through prohibitions[19].

[19] Most quantity control measures are formally prohibited by the GATT 1994, but can be applied under specifically determined circumstances (e.g. article XI of GATT 1994)

An import-licensing procedure is introduced for reasons other than sanitary procedures or technical barriers where approval is not granted in all cases. The approval may either be granted on a discretionary basis or may require specific criteria to be met before it is granted. Licensing procedure where approval is granted at the discretion of the issuing authority: may also be referred to as a discretionary licence.

A quota is a restriction of importation of specified products through the setting of a maximum quantity or value that is authorized for import and no imports are allowed beyond those maximums. They could be permanent or temporary and implemented on seasonal basis.

A prohibition on the importation of specific products could be based on economic reasons (i.e. to encourage domestic production) or non economic reasons (religion, moral or cultural reasons).

c) Finance measures: Are intended to regulate the access to and cost of foreign exchange for imports and define the terms of payment. They may increase import costs in the same manner as tariff measures.It refers to measures restricting the payments of imports, for example when the access and cost of foreign exchange is regulated. It includes measures imposing restrictions on the terms of payment, such as the need of an advance payment requirement or an advance cash deposit or even a system of multiple exchange rates.

Export measures:

It groups the measures a country applies to its exports. It includes export taxes, export quotas and export prohibitions.

Argentina’s imports procedures

As stated, the policy of "managed foreign trade" was based on the idea of protecting the consumer from the increase in domestic prices of the products Argentina exports the most. As it is showed in Chapter III the products that the country specialised now and then, are mainly commodities with little added procedure to its value. Meat, wheat, corn, soya and its derivatives, and milk ranks in the main positions of export list as it was detailed previously.

From 2007 and on, the country began to experiment a constant increase in inflation rate. Chapter II explore the cause of this incipient inflation inferring that the main problem Argentina had on this aspect was the increasing prices of the commodities, especially in soya, and the significant increase in international price the good had due to the super cycle of commodities[20] .

As the government policy and power, was based on the less developed social class, an increase in those prices would have its main impact on this social sector. Also economic policy prioritized domestic consumption as an engine of aggregate demand. On the other hand, from 2010 and on, Argentina began to have difficulties in its balance of payments with a lack of foreign currency to face imports and debt payments. Not a minor problem that was tackled by numerous restrictions to have access to foreign currencies.

Table 4.2 and 4.3, ¨Restricted measures on Imports¨ and ¨Restricted measures on Exports¨, summarizes the measures adopted, their period of validity and the inspire aim pursued with them. A complete detail of all the measures taken is provided in Annex I;

	Table 4.2 Restrictive measures on Imports			
Year of effect	Type NT: Non-Tariff – T:	Products covered	Aim	Actual Status

[20] Starting in 2000, commodity prices boomed for a variety of reasons. They drew fuel from the voracious demand of China and other emerging market economies. From 2000 to 2012, dozens of commodities rose in lockstep – thus the supercycle – acting as a great transfer of wealth, capital and influence from commodities importers to exporters, from the advanced to the emerging market economies.

	Tariff				
2006	NT	Capital Movement control	Every item	Control on Capital flow	Loosen Requirements
2008	NT	Antidumping and Countervailing Measures	End Consumer goods and sensitive sectors: small appliances, shoes and construction raw material	Protect local production of sensitive sectors	Provisional and definitive imposed duties has finished in many cases
2008	NT	Non-automatic import licensing requirements.	Furniture, steel, metallurgical products, and tyres	Protect local production of sensitive sectors	The number of products covered has been reduced
2009	NT	Application of "criterion values" covering around 1,000 imported. These products were subject to control for customs valuation purposes	auto parts, textiles, TV, toys, shoes, and leather goods).	Protect local production of sensitive sectors	The number of products covered has been reduced

2009	NT	Non-automatic import licensing requirements	textile fabrics, auto parts, electrical machinery and equipment, vehicles, parts and accessories of motor vehicles, articles of apparel and clothing accessories, chemicals, and paper	Protect local production of sensitive sectors	The number of products covered has been reduced
2010	T	Temporary increase of the Mercosur Common Tariff (to 18% and 26%)	Textiles	Protect local production of sensitive sectors	In force
2010	T	Temporary increase of the Mercosur Common Tariff (to 35%) for 3 tariff lines	Articles of leather	Protect local production of sensitive sectors	In force

2011	T	Special authorization to increase the Mercosur Common Tariff applied rates, but not above their bound levels (35%), for certain products (100 tariff lines per Member) for renewable periods of 12 months	Industrial and Consumer goods	Protect local production of sensitive sectors	In Force
2012	NT	Import permit (Sworn Affidavit of Intent to Import (DJAI)	Every item	Control on Capital flow	annulled
2012	NT	Requirement of export compensation plan	Every item	Control on Capital flow	annulled
2012	T	Increase in Import tariff (Exemption from CET- common External Tariff)	Information Technology and Capital Goods.	Protect local production	In force

	Table 4.3 Restrictive measures on Exports				
Year of effect	Type NT: Non-Tariff – T: Tariff		Products Covered	Aim	Actual Status
2006	NT	Capital Movement control	Every item	Control on Capital flow	Loosen Requirements
2006	T	Imposed export taxes at 6% for 35 tariff lines	Daily products	Control on Internal prices	Annulled
2007	NT	Export Licensing	Agro Commodities, dairy industry, and meat	Control on Internal prices	In Force
2009	T	Increase on Export Tariffs	commodities	Control on Internal prices	Annulled
2011	NT	Application of "reference values" for certain products of the dairy industry and	exports of frozen crustaceans, milk and cream in powder	Control on Internal prices	In force

		fishing industry			
2011	T	Extension of export taxes on hydrocarbons (originally implemented in 2002)	Hydrocarbons	Control on Internal prices	Modified, reducing the tax rate
2012	T	Temporary increase of export duties on biodiesel	Biodiesel	Control on Internal prices	Modified, reducing the tax rate

Restrictions on Imports:

a) Tariff Barriers

The basic legislation affecting import and export transactions is contained in the Customs Code (Law 22,415), which came into force in September 1981. In 2010, MERCOSUR approved the MERCOSUR Customs Code to come into effect January 1, 2012. The Argentine Congress approved it in December 2012, and the Customs Code is now in force.

According to its creation treaty, MERCOSUR gradually eliminated almost all non-tariff restrictions and other limitations to trade among its founding members (Argentina, Brazil, Paraguay and Uruguay). As of 2006, over 99 percent of all intra-MERCOSUR tariff lines had been reduced to zero even though some products like sugar for instance has not yet been incorporated into MERCOSUR's internal free trade regime, and certain other products such as automobiles and its parts, while officially incorporated, are actively managed, including by the use of quantitative restrictions (quotas).

For countries outside the MERCOSUR area, Argentina and its MERCOSUR partners established the MERCOSUR common external tariff (CET) on January 1, 1995. The CET currently ranges from zero to 20 percentages for most products. In 2009, however, some products were set at the maximum level allow by the WTO, that its 35 percentage for the import duty calculated on its CIF value.

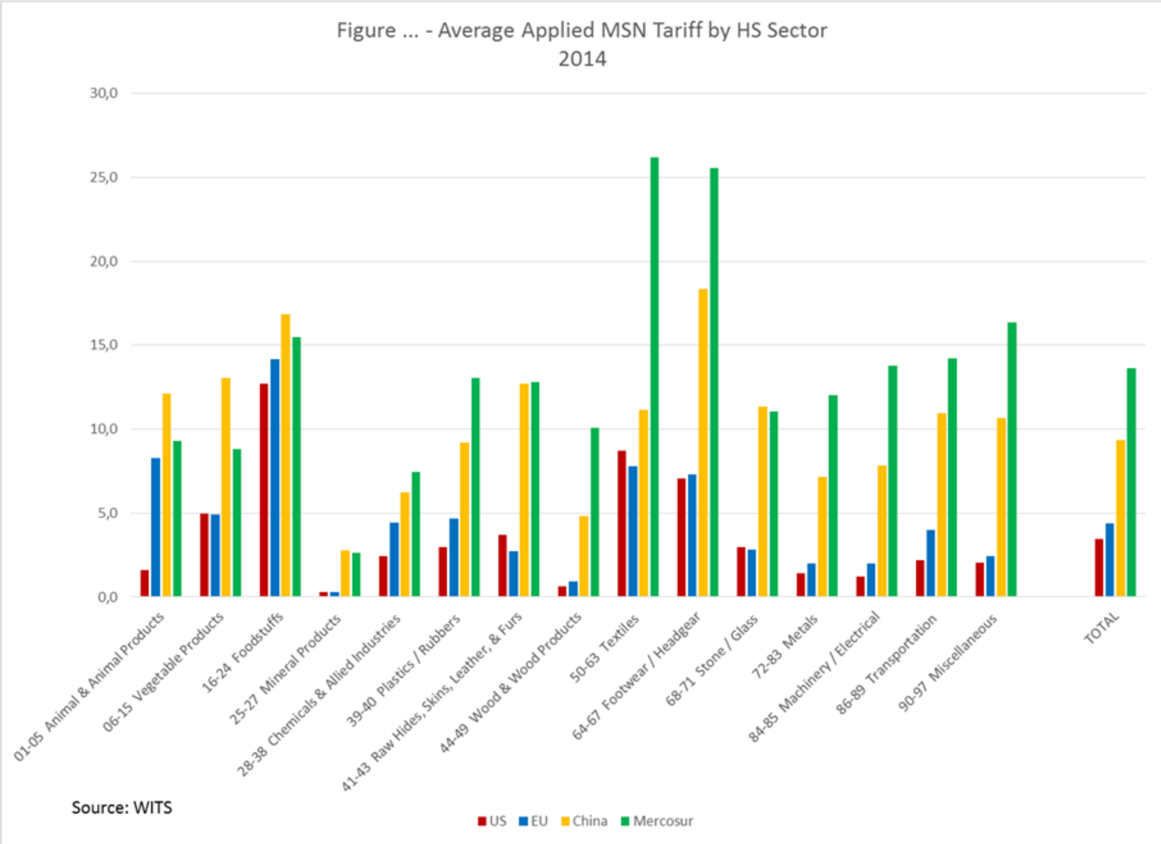
At the same time, the MERCOSUR countries can set an import duty different from the CET until December 31, 2015, for specific products, using the so-called Exceptions List (pursuant to Decision 58/10 CMC MERCOSUR). There is a list of sensitive products temporarily exempted from the CET. The first group includes sensitive products such as Information Technology and Capital Goods.

Since July 2012, imported capital goods that compete against local production have been subject to a 14 percentage tariff. Imported capital goods that do not have a local substitute face a 2 percentage tariff.

As for the tariff policy carried out by the block itself, we can see by the Figure below the average tariff level these groups of countries applied in comparison with other groups such as the EU or other countries such as China and the US. Mercosur countries show a significant high level in comparison with others countries for the most of the HTS[21] chapters. It is remarkably high the level of protection for textiles and footwear, all industry sectors traditionally protected among them. Textiles and footwear are considered sensitive products in Brazil and in Argentina too, traditionally having protected policies. This high level it is also verify in transport, metal and electrical machinery. On the contrary in chapters the block specialised, as foodstuff, animal and vegetable products and mineral, the level is significant is lower.

Figure 4.2. Average applied tariff by HTS code.

[21] Harmonized Tariff System



Besides this frame of high level of protection the block present, Argentina, in this stated period analysed, has pursued a number of measures, increasing the level of tariff for imports in certain chapters.

During the years between 2006 and 2015 has increased or modified the level of imports and exports tariffs as well. It is showed on table 4.2 and 4.3 above.

So far, this upper level is still effective, particularly on imports. For the export tariff, the new government has reduced the level on industrial products to 0% and on commodities in a range between 5 % to 25%. Only remaining the export tariff of soya at the maximum 35% the WTO allows.

Non-tariff barriers:

b) Antidumping and Countervailing Measures

Regulations define "dumping" as the export price of imported merchandise being lower than the comparable sales price in normal commercial operations of identical or similar goods destined for consumption in the domestic market of the country of origin. From 2006 on, Argentina has set antidumping and countervailing measures on various occasions, some of which still remain in force.

c) Import Permit Requirement: Sworn Affidavit of Intent to Import (DJAI)

Since February 1, 2012, Argentina has required all importers to request and receive approval from the Secretariat of Commerce and the Argentine Tax and Customs Authority (AFIP) prior to importing products from abroad. This measure was named ¨Sworn Affidavit of Intent to Import for Imports¨ (DJAI) and was into force for any kind of import from 2012 and 2015. It covered all tariff codes for every product entering the country.

Application took placed thru Administración Federal de Ingresos Públicos (AFIP- Argentine Tax and Customs Authority) via the AFIP online system, known as MALVINA, which was accessible to Customs Brokers through submission of a Sworn Affidavit of Intent to Import (DJAI). Approval times and criteria applied to determine if permission is granted to import was unpredictable and not prescribed in any written law or regulation. This last issue was highly criticised among Argentina's trade partners and the world itself.

Many countries use different kind of license to imports of different products, based on inner policy and particular goods or sector need to be protected. As a matter of fact, only 600 tariff codes had to request permission before 2012, through what was called "non-automatic licensing." But the trade-balance situation began to worsen by that time thus the government decided to set this measure in order to bring any good into the country.

During the years the restriction was effective, many people accused the government of providing the authorization on the basis of a discretionary approval. Formally, there should be no a priori objection to getting the affidavit approved. After AFIP approves it, the Central Bank (BCRA), released foreign currency for the payment. Only then the importer could finish the commercial operation with the foreign seller. But this was all theoretical. In practice, this has ceased to be so linear. When the Central Bank, for one reason or another, needed to improve the position of foreign currency, it did not authorize and the importer couldn't finish the transaction.

d) Import permit: Application of "Non-automatic licensing" Requirement

This was another tool the country utilised during this period. The idea behind was having a control on the good entering into the country in reference with the sensitive sectors that have the government priorities to protect.

e) Application of criterion value for some imported goods.

The application of this tool consists of controlling the import declared value upon which the import duty was imposed. Although it is not a strictly tariff measure it has a direct effect on the cost of imported goods.

f) Financial measures: Regulations on capital movements

Central bank requirements to make transfers in and out the country

In the case of exports, the Central Bank law banned the possibility of keeping the foreign currency an exporter got from its business. They had to be sold to the Central bank at an established official rate. If the exporter didn't sell the currency in an established period of time, it was penalised.

Similarly, if an importer needs to transfer money overseas, it needed the authorization from the Central Bank, who sold the currency at an official rate only after the importer justifies properly the basis of the transaction and why it needed the money. If the importer didn't have proper justification, it could not buy the currency at the official rate and had to buy it in the unofficial market at a different (higher) rate.

These requirements that many times consisted of a real prohibition to get foreign currency had led to create different markets for the foreign currency, performing a black market, with a big gap exchange, which contributes to the inefficiency of the whole process.

As a matter of fact, in Argentina it didn't exist such thing as multiple exchange rates, but as a consequence of the above, in practise it did exist different exchange rate an importer or exporter could have the foreign currency.

This was also a period, where multiple taxes were imposed to different financial transactions involving collections or payments overseas. As an example, as the export of different products where subject to different levels of tariffs, the exchange rate obtained by any different exports, changes significantly. For instance, as export of commodities where levy at levels around 30 to 35 per cent, and export of industrial goods, at levels of 5 %, the difference in the effective exchange rate was remarkable.

Additionally, the government applied other taxes, such as an income withholding tax, every time a person required buying foreign trade. Depending on the aim stated, for saving or to buy a product abroad, the rate was different, performing different costs for the access to foreign currencies.[22]

The first article of Central Bank Law, defined the exchange market in Argentina, as being single and free. Single in the sense of having only one possible exchange rate and free in the

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[22] People named different markets, as many as the different rates one could access to foreign currency. In Argentinians words: dólar oficial, dólar ahorro, dólar tarjeta, dólar bolsa, dólar soja.

sense of unrestrictive access. The actual fact in the last decade was that the exchange market was neither single nor free.

Repatriating profits:

While there was no legal prohibition against foreign companies repatriating profits, regulations implemented in November of 2011, mandating that firms needed permission from AFIP in order to exchange local currency into foreign exchange, served as a de-facto control on the ability of foreign firms to repatriate profits. Meanwhile, export proceeds must be repatriated to Argentina and for most products must be remitted to the Central Bank within 15 days. Repatriation deadlines vary based on product categories. These stipulations could change based on economic conditions.

g) Requirement of export compensation plan

The requirement of presenting a plan of export compensation was another measure the importers had to face. The BCRA used to have a secondary role. There was a time when they demanded the famous one-for-one: for every dollar a person or a company wanted to import, they must export one. It means that to get license approval, any company had to make a proposal of a plan of export. The idea was that if a company wanted to import, it had to export first.

This idea, as many of the measures taken, didn't work and only created a deviation of export transaction from one company of another. That is to say, an exporter, which already has a confirmed purchase order, contacts an importer and sold this closed transaction to the importer, so that the latter could show this transaction on its records and could continue with its business (to import). The exporter, gained the money from a commission of doing so, improving in a way the exchange rate they got, but no genuine export transactions or clients took place.

The big problem in Argentina was that the importing matrix of the country was increasingly linked to production. Ninety percent of what enters the country were supplies for industry, agriculture, and infrastructure. When delays or obstacles occurred, the problems began for the arrival of automotive supplies, capital goods, pesticides, and agrochemicals. This struck the whole economic production.

h) Other administrative Barriers

During this ten years Argentina has increased the number of import procedures making even more difficult the import process. Thus, new measures were set by different government offices, increasing the cost and time of import procedures.

Prior government approval was required for imports of sensitive goods such as pharmaceuticals, foodstuffs, insecticides, veterinary products, medical devices, defense materials, cosmetics and toiletries, and other products. Many such products were subject to registration and presentation of a sanitary certificate issued by a competent authority in the exporting country, or other requisites to protect human, animal or plant health. Certain types of special vehicles, publications, shoes, carpets, paper and automobiles to be used as prototypes require prior government approval to be imported into Argentina.

Many food-related and agricultural imports, such as livestock, plants, bulbs, cuttings, rhizomes, roots, grains, and plant products require a sanitary certificate issued by a competent authority in the exporting country. Products destined for human consumption must fulfil certain specifications and be labelled and packed accordingly.

i) Quotas

There is a quota system and special regime for auto parts. The bilateral auto agreement between Argentina and Brazil establishes preferential market access treatment for both countries to protect the MERCOSUR automobile industry. A complicated system of reciprocal obligations exists between Argentina and Brazil. The Argentine government separately sets annual quotas for official distributors of foreign cars and auto dealers, as well as for other firms and individuals. Foreign auto manufacturers in MERCOSUR countries receive national treatment. Argentina also has a bilateral autos agreement with Mexico.

Export Restrictions:

As above mentioned, the restrictions, though based on a different purpose, reach the export process too.

j) License Approval for exports

Many of the HTS codes, particularly, those identifying commodities such us: milk, meat, wheat and soya, needs a previous authorization to be exported. This was a policy framed in the fight the government carried against inflation.

k) Tariffs on Exports:

Conversely many countries, in 2002 Argentina set export duties on every commodity export. In those years the country faced the deepest crisis of its last thirty years and this measure was taken to improve the fiscal revenue but was never put aside. Additional problem was the level of tariff rate that was set: the maximum the WTO allows, 35% for agri commodities, and from 5 to 10 per cent on industrial sector exports.

The WTO point of view

The World Trade Organization rejected Argentina's licensing rules used to restrict imports. United States, the European Union and Japan bid against the South American country on 2013 and in 2015 the measure was banned. The WTO's appellate body recommended Argentina fix its trade rules after it upheld an earlier WTO panel report that Argentina's import licensing requirement and other import restrictions breached international trade rules.
Faced with a struggling economy, Argentina's government has limited imports in a bid to shield local industries and bolster its trade surplus.
The U.S. National Association of Manufacturers said Argentina should quickly scrap its "burdensome" import requirements, and the Obama administration said it would continue to make sure trading partners played fair.
The European Commission said Argentina should stop requiring foreign companies to limit their imports, offset the value of imports with equivalent exports, invest in the country and keep their profits there, or use a certain amount of Argentine content in their products.

Recently, on December 2015, Argentina began to get back on the track of free and fair trade with transparent and predictable rules. President Mauricio Marci’s administration announced the end of restrictions on imports into Argentina, with the current controls of 'sworn statements' or DJAI, replaced by a system of automatic and semi-automatic licences. Companies will also no longer be forced to inform the Domestic Trade Secretariat about their cost structures and profits, following years of tense relationships with the government.

According to the new government, of the 19,000 categories of products that needed individual DJAI import permits to be signed before they can be brought into the country, 18,000 were granted automatic entry in 2016. The remaining 1,000, meanwhile, now have non-automatic licences which mean that the government have greater leeway to restrict their entry.

The real effectiveness of trade barriers

The economic policy measures the previous government took were successful in maintaining domestic demand and employment but hampered production and development.

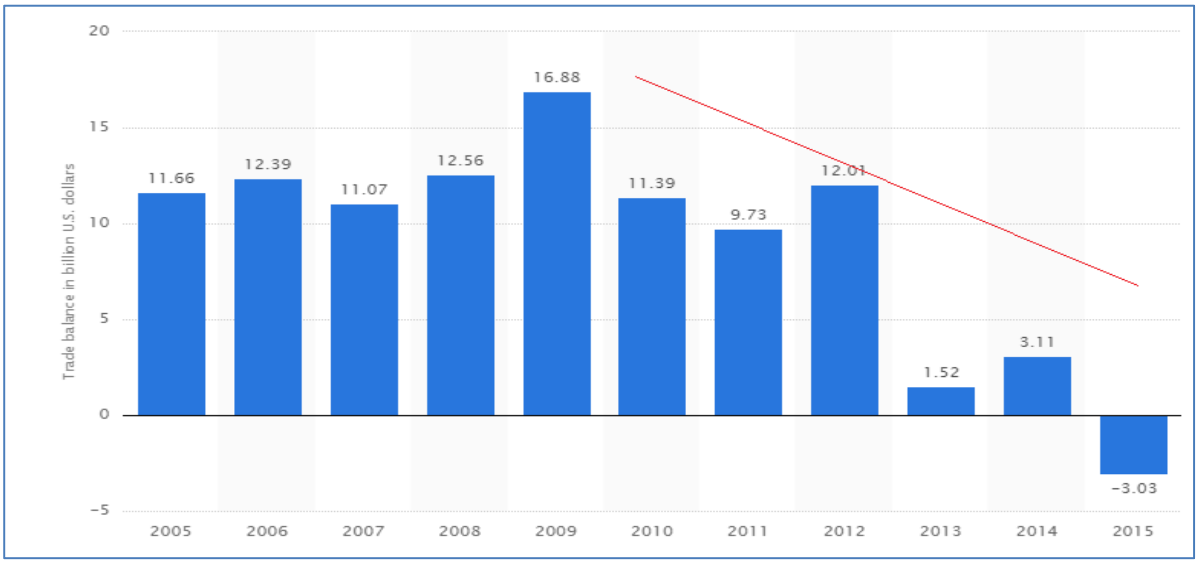
The big effort to block imports in order to protect domestic industry damaged employment and production other than protected them.

The final aim of export restrictions was to face an incipient inflation. This aim was never accomplished, finalising the country among the three with highest inflation rates in the world.

The country lost competitiveness in every sector, even the ones Argentina was proved to be competitive in, such as the agribusiness sector.

In general terms, any of the measures described, have worked at some degree. They proved to be effective at preventing imports and exports from keep growing, (as seen in Figure 4.3), but were not so effective to prevent trade balance from falling since the measures began.

Figure 4.3: Argentina Trade balance



Source: http://atlas.media.mit.edu/en/profile/country/arg/#Trade_Balance

5. THE ARGENTINIAN CHANGING PATTERN OF TRADE WITH EU AND ITALY

Argentina and Italy have always had a close relationship not only for their cultural ties, but in terms of economic exchange too. This chapter analyses the commercial bonds between the two countries. The frame has been described in chapter III and the focus of this apart is to deepen into the relations for the two countries. As its main goal, it intends to outline the potential trade opportunities behind, based on an analysis of revealed comparative advantage. Eventually, this chapter seeks identifying the sectors which show better performance in foreign trade variables.

Argentina- EU commercial frame

The business relationship with the European Union is critical for Argentina. In historical terms, and regardless of the economic cycle and trade agreements, the Old Continent is one of the main commercial partners for Argentina, on both sides (as source of Argentina imports and as destination of its sales), revealing the high degree of complementarity between the productive structures of both regions. Moreover it has to be considered, the political influence of the European bloc in the economic scenario, all of which further enhances the relevance a possible EU MERCOSUR agreement might have for Argentina.

The concessions granted in a free trade agreement between two blocks can generate changes in the exchange between partners. On the one hand, obtaining tariff preferences tends to induce an increase in exports to the new member; on the other, losing the exclusive preferential access to the former partners -in this case, involves Mercosur intra-trade, can displace exports partially or totally. This is what creates opportunities and threats for foreign trade, through changes in exports and imports, which in terms theorists are called creation and diversion trade effects.

The Mercosur-EU negotiations start from a clear asymmetry: the EU is the largest exporter and second largest importer globally , while Argentina is a country " boy ", 33 times smaller EU 's total exports , and 46 times lower imports .

A second asymmetry detected is that while EU is an important partner for Argentina, with 17 % of ARG exports share and 23 % of ARG imports share, Argentina places a small role for EU: around only 0.5 % of EU total external sales and purchases, involve Argentina.

A third difference to remark comprises the structure of trade. Argentina exports are mostly food, generally insensitive to an improvement in the income of buyers, while EU exports to Argentina are concentrated in chemicals, machinery and transport equipment, areas with higher income elasticity.

Argentine exports to the EU reflect a broad association with Argentina revealed comparative advantages and disadvantages.

Argentina-Italy general overview

In this section, and before going deeper into the trade relations between the two countries, it is summarized the trade profile of both countries.

Table 5.1 below describes, in a comparative basis the main macroeconomic variables of the three areas: Argentina, Italy and the EU.

Comparing to the European country, Argentina is ten times bigger in land, has a younger population, but with about the same labour force. Italy, in turn, doubled its GDP per capita, (35000 USD against 13000 USD, for the year 2015). As for social conditions, according to Gini Index, it is revealed higher inequality in the income distribution in Argentina than in Italy, with three times more population living under the poverty line.

Argentina is considered an emerging country by the IMF classification[23] of October 2015 while Italy is a developed economy. Although this is not the case of other indexes prepared by other banking and financial institutions which consider the country as a Frontier Market (less than emerging in terms of economic development).

Table 5.1 - Comparative Summary Statistics*			
Indicators	ARG	ITALY	EU
Natural resources			

[23] http://www.imf.org/external/pubs/ft/weo/2015/02/pdf/text.pdf The main criteria used by the IMF in its reports World Economic Outlook, to classify the world into advanced economies and emerging market and developing economies are (1) per capita income level, (2) export diversification, and (3) degree of integration into the global financial system.

	Area (thousands sq Km)	**2780**	**301**	**4325**
	Agricultural land (%)	*54*	*46*	*44*
	of which arable (ha per person)	*0.93*	*0.11*	*0.21*
	Crude Oil - proved reserves (billion bbl)	**2354**	**0.545**	**5789**
	Natural Gas - proved reserves (billion cu m)	**378.8**	**59.4**	**1492**
Population				
	Total (million)	**43**	**62**	**514**
	Aged 0-14 years (%)	*24.7*	*13.7*	*15.5*
	Aged 65 and over (%)	*11.5*	*21.2*	*18.8*
	Total fertility rate	2.23	1.43	1.61
	Life expectancy at birth (years)	**77.7**	**84.9**	**83.2**
	Labour force participation (% of pop. 15-64)	*68.5*	*64.1*	*72.1*
	Labor force with tertiary education (% of total)	*20.9*	*19.3*	*31.2*
Economy				
	GDP per capita (US $)	**13589**	**34909**	**36423**
	Real GDP growth	*2.1*	*0.8*	*1.9*
	Consumer Prices Index	*26.7*	*0.1*	*0.0*
	Export (% of GDP)	*11.4*	*13.5*	*25.0*
	Current Account Balance (% of GDP)	*-2.8*	*2.1*	*2.2*
	Budget deficit (% of GDP)	*-6.7*	*-2.6*	*-2.4*
	General Government Debt (% of GDP)	*56.5*	*132.7*	*85.2*
	Reserves of foreign exchange and gold (% of GDP)	*4.9*	*4.4*	*7.8*
	Stock of at home FDI (% of GDP)	*21.7*	*28.9*	*27.8*

Social conditions			
Distribution of family income (Gini Index)	*45.8*	*31.9*	*30.9*
Population below poverty lines (%)	*30*	*9.9*	*9.8*
Infant mortality rate (per thousand live births)	*9.7*	*3.3*	*4.0*
Intentional homicides (100.000 inhabitants)	*5.5*	*0.9*	*3.0*
Safety Perception Index (% of respondent)	*36.7*	*53.8*	*na*
Corruption Perception Index (descending ranking position)	*107*	*61*	*na*
* Data are 2015 estimates or latest available year Sources: WDI, Eurostat, CIA, UNODC, Transparency International			

Table 5.2 and Figure 5.1 show Argentina trade profile for the year 2014. The country has a tiny share in the world trade. It doesn't go beyond 0.38% of total global trade. Brazil, Argentina's main partner, represents 20% on imports and exports as well.

The EU appears to be the second partner in importance: 14.2% of the country's exports have the EU28 as a destination. Regarding Argentina imports, the EU countries account for the 17% share of total Argentina imports.

As for type of goods involved, from total exports, 52% correspond to agricultural products, 7% fuels and mining and 29% manufactures, the latter mainly to Mercosur destination. Considering the chapters of HTS[24], the country is focused in the primary sector: residues of food and animal industry, cereals, animal and vegetable fats and oils rank first places in the list of main exported products, except for vehicles, that has a significant export volume, but focused only to Brazil market and due to a special regime Argentina and Brazil have.

[24] Harmonized Tariff Schedule (2016 HTSA Basic Edition)

Table 5.3 gives the Italian trade profile for the year 2014. It has a bigger share on the world trade, counting on almost 3% of total exports as well as on Imports. Its main partner is the EU 28 on exports and Imports, and has the US as second export destination with a 7% of Italian exports and China as second supplier counting on 7% of total Italian imports. Regarding the type of products, Italy is a country focused on Machineries. This category counts for the 82% of total Italian exports. As well as important the category is on the share of imports: it counts for the 62% of them.

Table 5.2 Argentina trade profile 2014

TRADE POLICY		
WTO accession		1 January 1995
Trade Policy Review		20, 22 March 2013
GPA accession		Observer
Tariffs and duty free imports		
Tariff binding coverage (%)		100
MFN tariffs	Final bound	Applied 2014
Simple average of import duties		
All goods	31.8	13.6
Agricultural goods (AOA)	32.3	10.4
Non-agricultural goods	31.7	14.2
Non ad-valorem duties (% total tariff lines)	0.0	0.0
MFN duty free imports (%, 2013)		
in agricultural goods (AOA)		5.5
in non-agricultural goods		22.1
Services sectors with GATS commitments		63

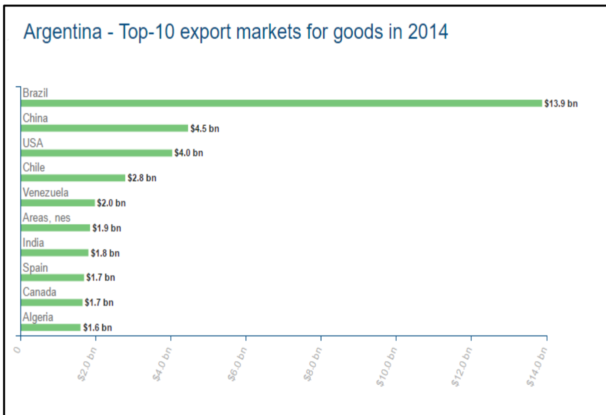
Contribution to WTO budget (%, 2015)	0.410
Import duties collected	
in total tax revenue	...
to total imports	...
Number of notifications to WTO and measures in force	
Outstanding notifications in WTO Central Registry	16
Goods RTAs - services EIAs notified to WTO	4 - 1
Anti-dumping (30 June 2015)	89
Countervailing duties (30 June 2015)	...
Safeguards	4
Number of disputes (complainant - defendant)	
Requests for consultation	20 - 22
Original panel / Appellate Body (AB) reports	4 - 9
Compliance panel / AB reports (Article 21.5 DSU)	2 - 0
Arbitration awards (Article 22.6 DSU)	0 - 0

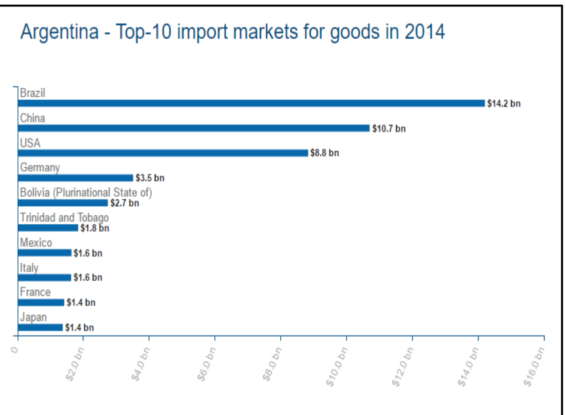
MERCHANDISE TRADE	*Value*	*Annual percentage change*		
	2014	2010-2014	2013	2014
Merchandise *exports*, f.o.b. (million US$)	71 977	1	2	-12
Merchandise *imports*, c.i.f. (million US$)	65 324	4	8	-11

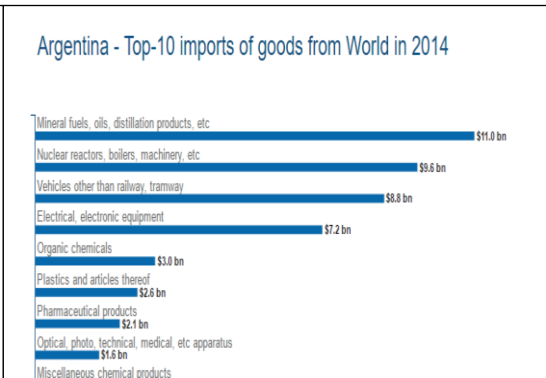
	2014		2014
Share in world total exports	0.38	**Share in world total imports**	0.34
Breakdown in economy's total exports		**Breakdown in economy's total imports**	
By main commodity group (ITS)		By main commodity group (ITS)	
Agricultural products	52.6	Agricultural products	3.4
Fuels and mining products	7.6	Fuels and mining products	20.0
Manufactures	29.6	Manufactures	75.5
By main destination		By main origin	
1. Brazil	20.3	1. Brazil	21.8
2. European Union (28)	14.2	2. European Union (28)	17.3
3. China	6.5	3. China	16.4
4. United States	5.9	4. United States	13.5
5. Chile	4.1	5. Bolivia, Plurinational State of	4.2

Source: http://stat.wto.org/CountryProfile/

Figure 5.1







Source: http://comtrade.un.org/

Table 5.3 Italy trade profile 2014

TRADE POLICY				
WTO accession		1 January 1995	**Contribution to WTO budget** (%, 2015)	3.073
Trade Policy Review		16, 18 July 2013	**Import duties collected**	
GPA accession		1 January 1996	in total tax revenue	...
Tariffs and duty free imports			to total imports	...
Tariff binding coverage (%)		100	**Number of notifications to WTO and measures in force**	
MFN tariffs	Final bound	Applied 2014	Outstanding notifications in WTO Central Registry	17
Simple average of import duties			Goods RTAs - services EIAs notified to WTO	36 - 14
All goods	5.0	5.3	Anti-dumping (30 June 2015)	108
Agricultural goods (AOA)	12.5	12.2	Countervailing duties (30 June 2015)	12
Non-agricultural goods	3.9	4.2	Safeguards	0
Non ad-valorem duties (% total tariff lines)	4.8	4.9	**Number of disputes** (complainant - defendant)	
MFN duty free imports (%, 2013)			Requests for consultation	95 - 83
in agricultural goods (AOA)		46.1	Original panel / Appellate Body (AB) reports	40 - 32
in non-agricultural goods		60.7	Compliance panel / AB reports (Article 21.5 DSU)	4 - 4
Services sectors with GATS commitments		115	Arbitration awards (Article 22.6 DSU)	4 - 3

MERCHANDISE TRADE	*Value* 2014	*Annual percentage change* 2010-2014	2013	2014
Merchandise *exports*, f.o.b. (million US$)	528 738	4	3	2
Merchandise *imports*, c.i.f. (million US$)	471 770	-1	-2	-2

	2014		2014
Share in world total exports	2.78	**Share in world total imports**	2.47
Breakdown in economy's total exports		**Breakdown in economy's total imports**	
By main commodity group (ITS)		By main commodity group (ITS)	
Agricultural products	9.0	Agricultural products	13.3
Fuels and mining products	6.2	Fuels and mining products	21.1
Manufactures	82.6	Manufactures	64.1
By main destination		By main origin	
1. European Union (28)	54.6	1. European Union (28)	56.8
2. United States	7.5	2. China	7.1
3. Switzerland	4.8	3. Russian Federation	4.5
4. China	2.6	4. United States	3.5
5. Turkey	2.5	5. Switzerland	3.0

Source: http://stat.wto.org/CountryProfile/

Argentina-Italy trade relations

As described in chapter III, Italy and Argentina, follows the pattern verified in the relations UE-Mercosur. The trade flow is complementary, that is, what Argentina imports is what Italy is specialized in and vice versa, Argentina exports what Italy is importing from overseas. There is no much inter-company trade between the two, what it may appear in the relation with other European countries, with Argentina; most of the trade transactions are verified thru independent exchange.

The exportation from Italy to Argentina has never been above the level of the year 1998, the highest point before the Argentina crisis (measure in current prices). After that deep crisis the Italian exports to the South America country fell and never recovered. On the contrary, Argentinian imports show an increase in last years. Analysing the last decade, the commercial balance showed negative figures, but has recovered, turning into a positive signed since 2012. Figures show, that Italy lost Argentinian market with the crisis and to date, has regained it only partially. On the other hand, Argentina shows better performance.

The above mentioned, is remarkable, especially, taking into account the protectionist frame Argentina was stuck to in the last ten years, which was described in Chapter IV.

Table 5.4 shows Italian Intra and Extra-EU trade. There it is showed that around 30% of total interchange is within the European community.

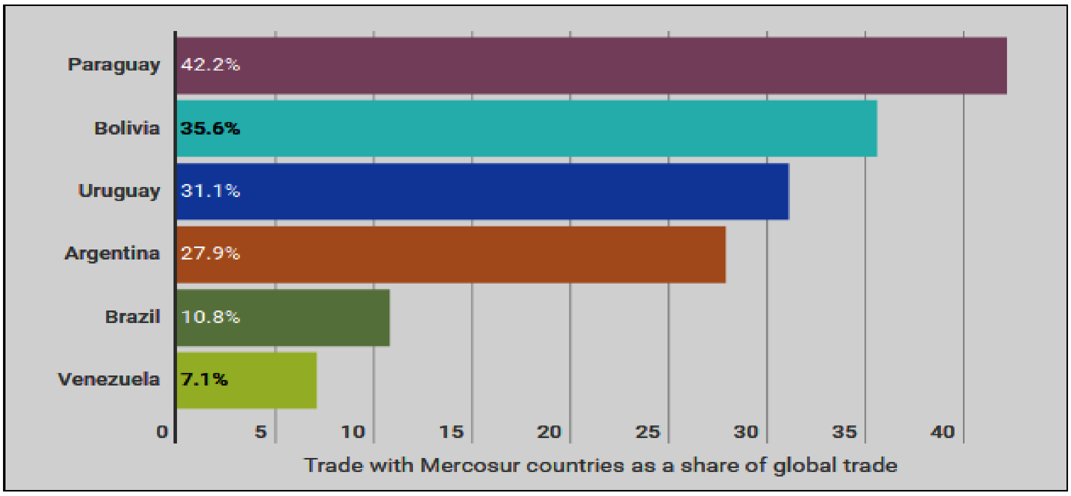
Table 5.4 shows the Intra and Extra-EU trade by Member State: Italy

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Extra EU Export	31,4	31,5	32,3	33,1	34,6	35,5	37,3	38,0	36,7	36,8
Extra EU Imports	36,0	35,7	37,3	36,5	38,1	38,5	39,3	37,9	37,2	36,7

Source: http://comtrade.un.org/

Equally, Argentina trade within Mercosur represented 27.9% for the year 2014. That trade, as described in chapter III it is mainly verified between Argentina and Brazil, in the industrial goods category.

Figure 5.3: Trade with Mercosur countries as a share of global trade



Source: http://trade.ec.europa.eu/

So the two countries, Italy and Argentina, as said, can be analysed as complementary economies. Figure 5.4 provides a long run perspective showing the good performance Italian products had before 2002. That level suffers with Argentina's crisis and never recovered. It shows the trade balance between Italy and Argentina in the last two decades. The peaks can be marked on the year 1997 (before the crisis) and then on the year 2013.

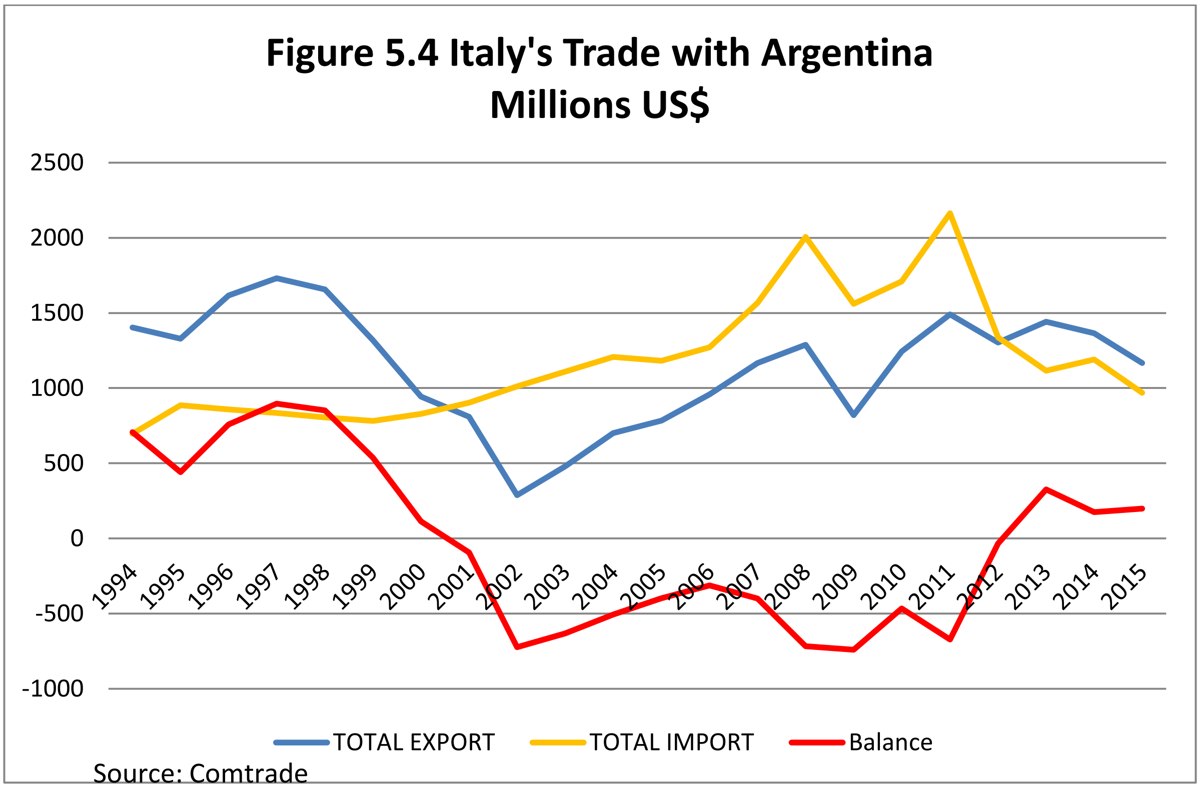


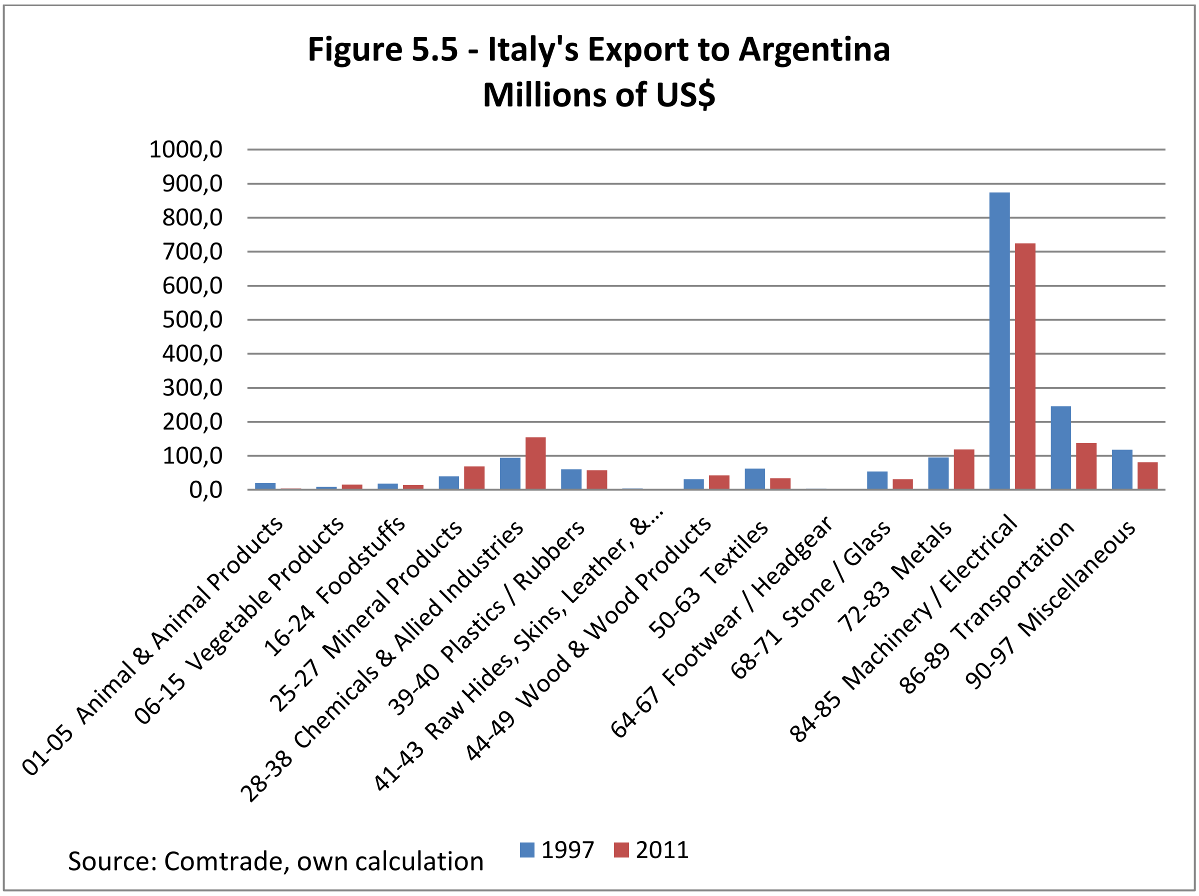
Figure 5.4 Italy's Trade with Argentina Millions US$

Source: Comtrade

The following Figure 5.5 shows, thru a static analysis, the trade profile through Italian exports in two defined points. The year 1997, the highest peak of export values in current prices, before the ARG crises, and then the year 2011 the highest peak to these days, but measuring the story after the ARG crises.

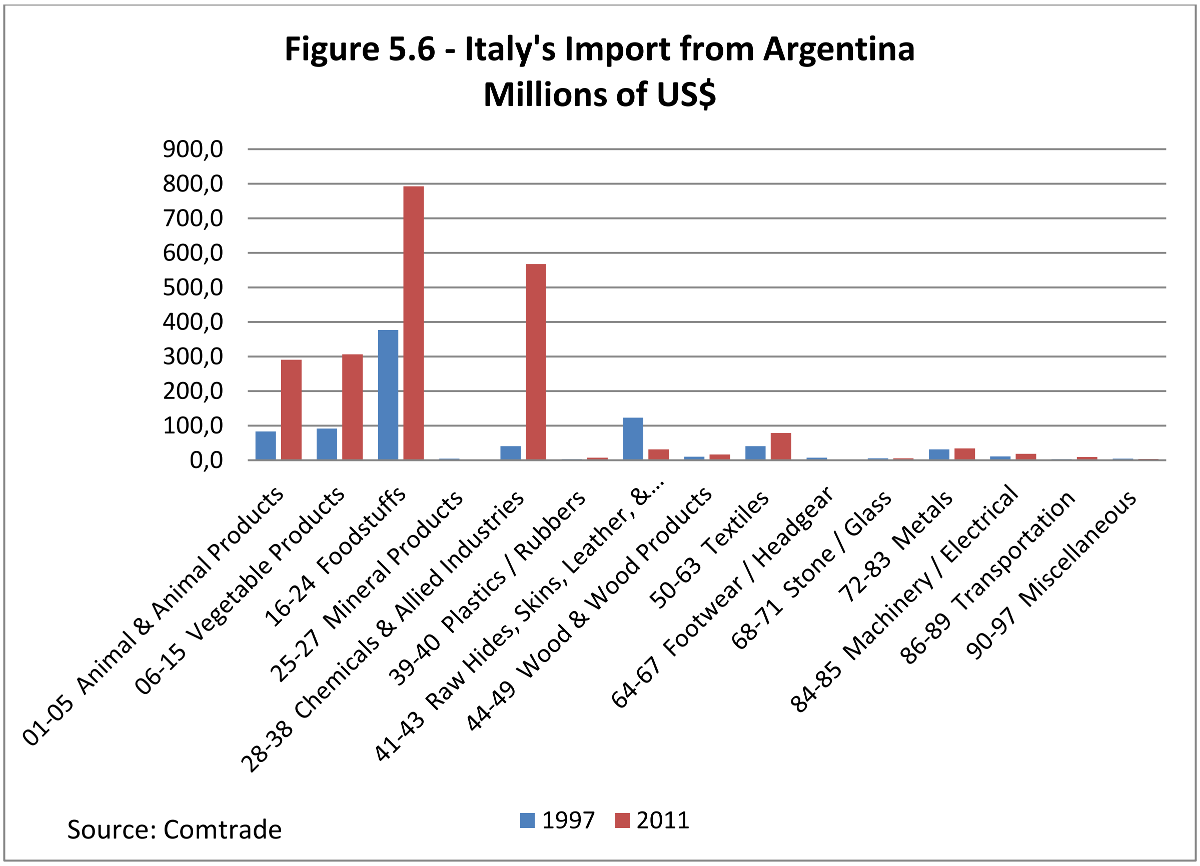
One preliminary conclusion that comes out is that at any given sector or products the volume of trade has recovered. In second term, taking into account the products, the specialization pattern of the European country is verified and follows the same pattern as the trade UE-MERCOSUR described in chapter III: Italy is strong in machinery and electrical equipment and transportation but the marks pointed before the crises has never been reached again.

Figure 5.5 Italy exports to Argentina (millions of USD)



Similarly, through Italians imports, a dimension of Argentina profile can be studied. Figure 5.6 shows similarly for the chosen years, the Argentinian exports by the products Italy imports from Argentina. If a match might be done, would point out the complementarity the two countries have. Argentina is strong at selling animal and vegetable products and foodstuff. Here repeating again the pattern verified in the trade EU-Mercosur. As for this, the conclusion is a bit different, the volume verified after the crisis is significantly bigger in those goods categories that before the crisis of 2002. The main explanation on this is the big increase in commodities prices and foodstuff that has occurred from 2000 and 2012 due to the super-cycle of commodities. This economic trend has raised the export value of emerging countries exporting commodities as Argentina does.

In later analysis, this point will be raised again, pretending to deepen it and conclude if this apparently better performance of Argentina is genuine regarding competitiveness or it is merely due to the external factor as it was the commodities prices scale that took place. In the last part of this chapter, it is tackle thru a revealed comparative advantage analysis by certain products.



Finally, at this point, is worth to add to the analysis, the view of the tariff level applied on each sector for each trade bloc. Tables 5.5 and 5.6 state the case of Argentina. Regarding

Imports, the MFN[25] duty Argentina applies is 14% on average, pointing the highest level of protection the WTO allows (35%) in clothing, textiles and the lowest for animal products, oils seed and other agricultural products around 8%.

As for exports, Argentina, applies duties on exports. The average tariff applied is 6.2% in the case of non-agricultural products and 12.6 % when referring to agricultural products. That goes together with the policy the country has carried out in the last decade where duties on commodities exports were raised as a way of restricting exports to provide domestic market. The main goal of this strategy, as described in Chapter IV, was to fight against the inflation that stroke the domestic economy from 2007.

Table 5.5: Argentina Tariff imports by group of products for the year 2013

Product groups	Final bound duties				MFN applied duties			Imports	
	AVG	Duty-free in %	Max	Binding in %	AVG	Duty-free in %	Max	Share in %	Duty-free in %
Animal products	26.5	0	35	100	8.3	6.5	16	0.1	17.7
Dairy products	35.0	0	35	100	18.3	0	28	0.0	0
Fruit, vegetables, plants	33.8	0	35	100	10.2	5.6	35	0.7	1.2
Coffee, tea	34.2	0	35	100	14.3	0	35	0.5	0
Cereals & preparations	33.0	0	35	100	10.9	14.7	31	0.3	6.7
Oilseeds, fats & oils	34.6	0	35	100	8.5	10.8	35	0.2	2.7
Sugars and confectionery	33.3	0	35	100	17.6	0	20	0.1	0
Beverages & tobacco	34.7	0	35	100	17.7	0	35	0.2	0
Cotton	35.0	0	35	100	6.4	0	8	0.0	0
Other agricultural products	30.9	0.7	35	100	7.9	9.6	35	0.4	19.4
Fish & fish products	34.5	0	35	100	10.4	3.9	35	0.3	0.4
Minerals & metals	33.8	0	35	100	10.1	7.1	35	15.7	52.7
Petroleum	33.6	0	35	100	0.1	97.2	6	7.2	99.1
Chemicals	21.4	0	35	100	8.2	1.4	35	16.1	12.1
Wood, paper, etc.	30.2	0	35	100	11.1	3.3	35	2.3	5.8
Textiles	34.9	0	35	100	23.3	0	35	2.3	0
Clothing	35.0	0	35	100	34.9	0	35	0.6	0
Leather, footwear, etc.	35.0	0	35	100	16.1	2.8	35	2.5	10.1
Non-electrical machinery	34.9	0	35	100	13.3	11.8	35	14.1	10.7
Electrical machinery	34.9	0	35	100	14.8	10.1	35	11.4	6.6
Transport equipment	34.5	0	35	100	14.6	12.0	35	20.9	4.1
Manufactures, n.e.s.	33.5	0	35	100	15.7	8.8	35	4.1	13.1

Source: http://wits.worldbank.org/

Table 5.6: Argentina: Exports to major trading partners and duties faced on 2013

[25] A tariff applied to a country with most favoured nation status. An MFN tariff is the lowest possible tariff a country can assess on another country. Members of the World Trade Organization are required to extend most favoured nation status to other members, though exceptions exist.

Major markets	Bilateral imports		Diversification		MFN AVG of		Pref.	Duty-free imports	
		in million	95% trade in no. of		traded TL		margin	TL	Value
		US$	HS 2-digit	HS 6-digit	Simple	Weighted	Weighted	in %	in %
Agricultural products									
1. European Union	2013	6,949	18	49	13.9	5.9	0.8	24.4	78.3
2. China	2013	4,901	6	9	12.6	4.9	0.0	8.3	0.2
3. Brazil	2013	3,191	16	49	11.4	11.5	11.5	100.0	100.0
4. United States of America	2013	1,791	16	48	7.9	4.3	0.0	32.3	29.5
5. Algeria	2013	1,705	5	5	17.4	5.7	0.0	0.0	0.0
Non-agricultural products									
1. Brazil	2013	13,268	37	184	14.8	23.8	23.8	100.0	100.0
2. European Union	2013	3,431	34	140	4.4	4.1	3.0	70.3	70.2
3. Chile	2013	2,485	52	455	6.0	6.0	5.9	98.1	98.8
4. United States of America	2013	2,458	38	122	2.9	0.8	0.0	52.2	81.1
5. Canada	2013	1,527	6	7	2.9	0.0	0.0	71.9	99.7

Source: http://wits.worldbank.org/

Repeating the analysis for the EU28 countries, tables 5.7 and 5.8 show the status of tariff imports by group of product in the European Union. The average MFN duty stands for 9.25%, with significant variation from this average mark. Dairy products shows a duty of 42% follow by sugar and beverages. The lowest marks correspond to non-electrical and electrical machinery and manufactures in general.

As for exports from the EU28, the average export tariff counts for 20.6% for agricultural products and 5.5 in the case of non-agricultural products.

Table 5.7: Tariff imports by group of products in 2013

Product groups	Final bound duties AVG	Duty-free in %	Max	Binding in %	MFN applied duties AVG	Duty-free in %	Max	Imports Share in %	Duty-free in %
Animal products	20.4	20.6	138	100	17.7	28.4	138	0.3	6.1
Dairy products	45.3	0	134	100	42.1	0	122	0.0	0
Fruit, vegetables, plants	10.4	22.6	182	100	10.9	19.6	182	1.6	14.2
Coffee, tea	6.1	27.1	22	100	6.1	27.1	22	0.9	71.5
Cereals & preparations	19.4	6.3	79	100	14.9	13.0	52	0.6	36.6
Oilseeds, fats & oils	6.8	48.2	176	100	6.8	48.1	176	1.7	75.9
Sugars and confectionery	25.6	0	94	100	25.2	11.8	81	0.2	10.9
Beverages & tobacco	20.8	23.4	183	100	20.7	19.2	166	0.6	17.5
Cotton	0.0	100.0	0	100	0.0	100.0	0	0.0	100.0
Other agricultural products	3.5	65.9	75	100	3.6	65.5	75	0.5	67.3
Fish & fish products	11.0	12.0	26	100	12.0	8.2	26	1.3	5.8
Minerals & metals	2.0	49.5	12	100	2.0	50.2	12	15.5	71.6
Petroleum	2.0	50.0	5	100	2.5	33.7	5	25.1	94.8
Chemicals	4.6	20.0	7	100	4.5	22.5	13	9.9	47.0
Wood, paper, etc.	0.9	84.1	10	100	0.9	81.1	10	2.3	85.7
Textiles	6.5	3.4	12	100	6.5	2.1	12	2.2	2.2
Clothing	11.5	0	12	100	11.4	0.3	12	4.3	0.4
Leather, footwear, etc.	4.2	27.8	17	100	4.1	26.3	17	2.5	16.8
Non-electrical machinery	1.7	26.5	10	100	1.9	21.3	10	10.2	53.4
Electrical machinery	2.4	31.5	14	100	2.8	20.8	14	10.4	56.0
Transport equipment	4.1	15.7	22	100	4.3	12.8	22	4.0	12.6
Manufactures, n.e.s.	2.5	25.7	14	100	2.6	20.9	14	5.8	50.6

Source: http://wits.worldbank.org/

Table 5.8: EU28 Exports to major trading partners and duties faced in 2013

Major markets	Bilateral imports in million	US$	Diversification 95% trade in no. of HS 2-digit	HS 6-digit	MFN AVG of traded TL Simple	Weighted	Pref. margin Weighted	Duty-free imports TL in %	Value in %
Agricultural products									
1. United States of America	2013	20,537	27	151	6.6	2.0	0.0	23.8	46.6
2. Russian Federation	2013	15,270	26	239	16.4	15.6	2.0	5.9	12.4
3. China	2013	10,037	26	89	15.4	10.6	0.2	8.4	3.8
4. Japan	2013	9,504	30	135	24.6	13.8	0.6	32.3	49.9
5. Switzerland	2013	9,344	27	323	40.0	23.7	4.1	32.3	40.6
Non-agricultural products									
1. United States of America	2013	340,798	69	1,518	3.5	1.1	0.0	46.9	73.1
2. China	2013	209,682	60	1,298	9.2	7.6	0.0	8.1	20.5
3. Switzerland	2013	136,556	68	1,551	1.9	1.2	1.2	99.0	99.9
4. Russian Federation	2013	115,365	60	1,376	8.8	8.7	0.1	16.9	30.2
5. Turkey	2013	88,739	66	1,540	4.5	4.0	4.0	99.4	100.0

Source: http://wits.worldbank.org/

Analysis of competitiveness: The revealed comparative advantage

In this section, it is analysed the competitiveness in foreign trade of Italy and Argentina in a given group of products with the aim of foreseen the potential opportunities each country has and will be likely to develop in the frame of a potential closure for the Free trade Agreement EU MECOSUR.

In this case it has been taken the index Revealed comparative advantage (RCA). This is an index used in international economics for calculating the relative advantage or disadvantage of a certain country in a certain class of goods or services as evidenced by trade flows. It is based on the Ricardian comparative advantage concept and was firstly introduced by the economist Béla Balassa (1965).

The RCA is equal to the proportion of the country's exports that are of the class under consideration (Eij / Ei) divided by the proportion of world exports that are of that class (Eaj / Ea). On the basis of this index, a country is defined as being specialized in exports of a certain product if its market share in that product is higher than the average or, equivalently, if the weight of the product for the country's exports is higher than its weight of the exports of the reference area. A country reveals comparative advantages in products for which this indicator is higher than 1, showing that its exports of those products are more than expected on the basis of its importance in total exports of the reference area. A comparative advantage is “revealed” if RCA>1. If RCA is less than unity, the country is said to have a comparative disadvantage in the commodity or industry.

$$\mathrm{RCA}_{ij} = \frac{\frac{x_{ij}}{X_i}}{\frac{x_{aj}}{X_a}}$$

where:

xij denotes the export of products j from country i

Xi denotes the total export from country i

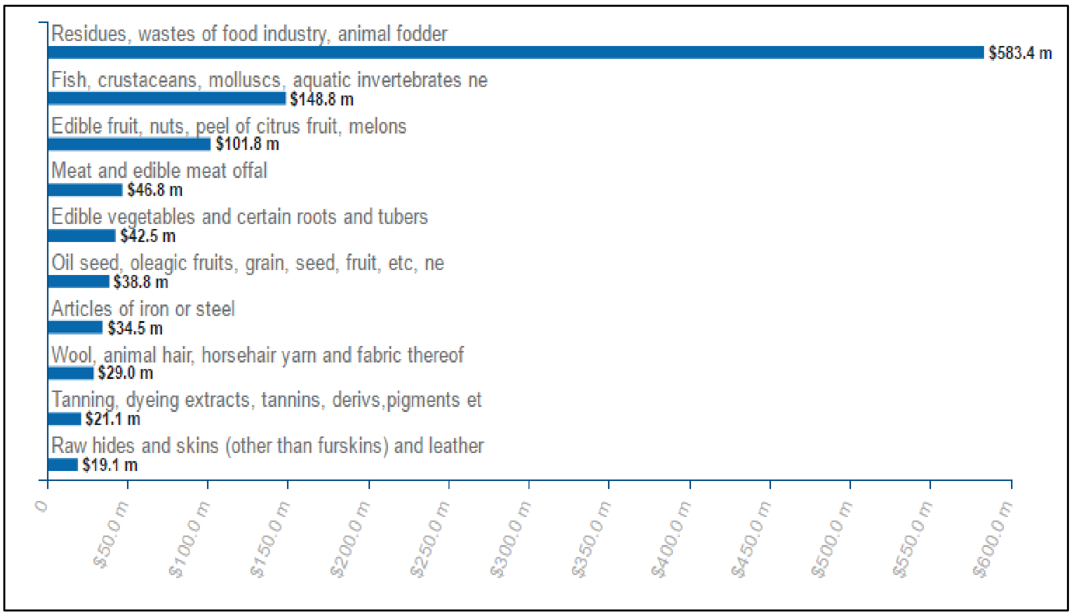
xaj denotes the total export of product j from reference area, say World

Xa denotes the total export from reference area.

For the work on this section, it has been used the database and the tool provided by Word bank indicators (WITS), the revealed comparative advantage[26].

According to WB database[27] , in 2014 Italy was the 19 th largest export market for Argentina (1,5% of Argentina exports went to Italy) and the 8 th largest market on Imports (representing 2,5% of total Argentina imports). In this section, it is described the breakdown of the exports and the imports Italy has from and to Argentina.(Figure 5.7 and 5.8) After that, two kinds of products are selected to focus the analysis.

Figure 5.7 : Main Products bought by Italy from Argentina in 2014

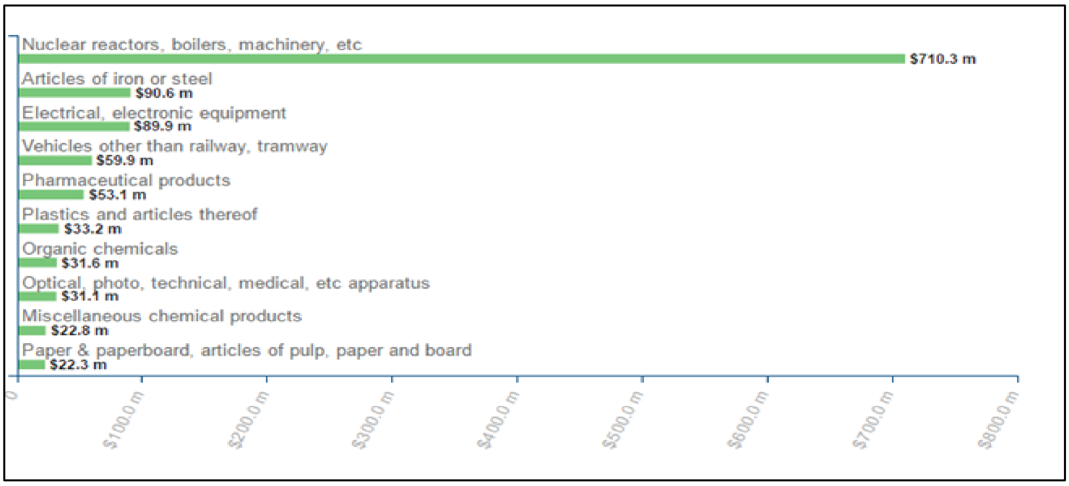


Source: http://comtrade.un.org/

Figure 5.8: Main products sold by Italy to Argentina in 2014

[26]http://wits.worldbank.org/CountryProfile/en/country/ALL/startyear/2010/endyear/2014/tradeFlow/Export/indicator/RCA/partner/WLD/product/Total

[27] http://wits.worldbank.org

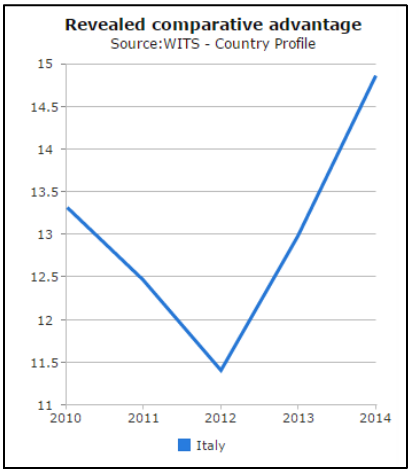


Source: http://comtrade.un.org/

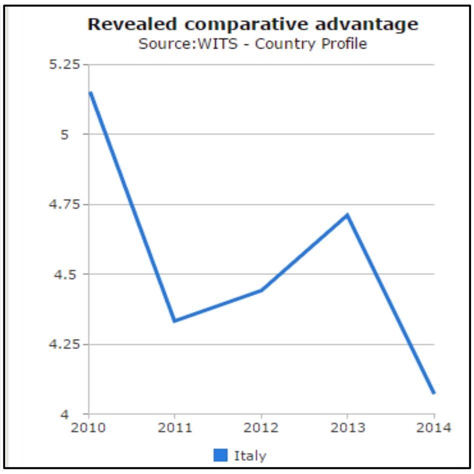
According to the above figures, the main exported products from Argentina to Italy are Residues of animal, vegetable and food industry, fish, edible fruit and vegetables. In that sense, it is analysed if Argentina has a comparative advantage in these given products in comparison to Italy. Using the WITS tool it is obtained:

Argentina Revealed comparative advantage to Italy 2010-2014[28].

Food products



Animal products



[28]http://wits.worldbank.org/CountryProfile/en/Country/ARG/StartYear/2010/EndYear/2014/TradeFlow/Export/Indicator/RCA/Partner/ITA/Product/16-24_FoodProd

To a better understanding it has been selected ten products or type of goods Italy and Argentina exchanged during the period 2010-2014, and with the tool described has been analysed the existence or not of a revealed comparative advantage in the same given products for each country. The summary of the indexes obtained is show on tables 5.9 and 5.10.

In table 5.9 it is stated the case of Argentina and the products that show a reveal comparative advantage. Not surprisingly, food products, animal and vegetable show the index above the parameter 1, revealing the country comparative advantage in those products. Therefore, Argentina's potential is set in exports of this kind as its market share is higher than the average (in comparison to the share of exports of these products in world trade). This is an obvious conclusion that verified the trade patern of the country.

Additionally, what came out from the analysis is that not only Argentina has an advantage in the agrifood and commodity industry but also in two kinds of products: Intermediate goods and chemicals. Remarkably, is the performance of intermediate goods, which show and index above 1 in the whole period under study. That reveals a hidden opportunity for this sector in relation with Italy.

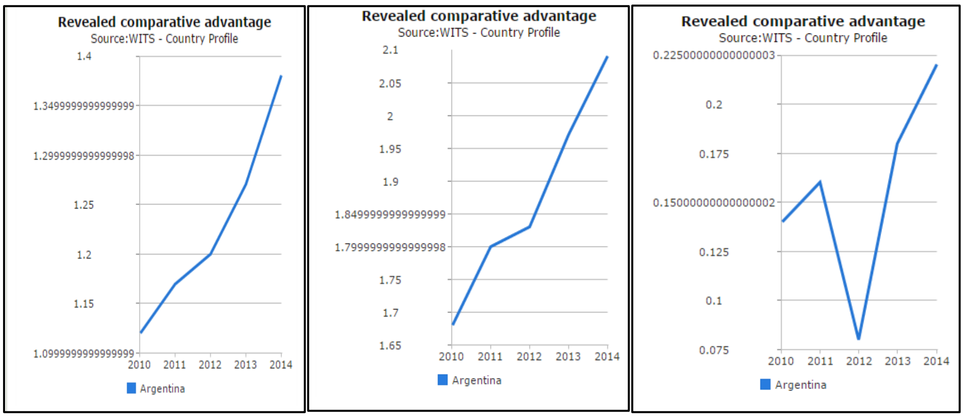
It is worth mentioning the case of chemicals that thru the first three years of the period show a positive index although the advantage disappear from the year 2013.

Table 5.9: Argentina Revealed comparative advantage to Italy 2010-2014

Reporter Name	Partner Name	Trade Flow	Product Group	Indicator	2010	2011	2012	2013	2014
Argentina	Italy	Export	Consumer goods	RCA	0,09	0,06	0,09	0,11	0,08
Argentina	Italy	Export	Intermediate goods	RCA	2,67	2,75	2,59	2,18	2,36
Argentina	Italy	Export	Animal	RCA	5,24	4,02	5,03	5,67	4,67
Argentina	Italy	Export	Chemical	RCA	1,07	1,92	1,5	0,29	0,24
Argentina	Italy	Export	Food Products	RCA	13,31	12,47	11,41	12,98	14,86
Argentina	Italy	Export	Footwear	RCA	0,01	0,02	0,01	0,01	0
Argentina	Italy	Export	Mach and Elec	RCA	0,1	0,05	0,08	0,1	0,09
Argentina	Italy	Export	Machinery and Transport Equip	RCA	0,1	0,08	0,15	0,17	0,19
Argentina	Italy	Export	Textiles	RCA	0,48	0,65	0,52	0,71	0,42
Argentina	Italy	Export	Vegetable	RCA	5,15	4,33	4,44	4,71	4,07

Italy Revealed comparative advantage to Argentina 2010-2014

Chemicals March and Electric Equipment Footwear



5.10 Italy revealed comparative advantage to Argentina 2010-2014

Reporter Name	Partner Name	Trade Flow	Product Group	Indicator	2010	2011	2012	2013	2014
Italy	Argentina	Export	Consumer goods	RCA	0,73	0,64	0,55	0,52	0,5
Italy	Argentina	Export	Intermediate goods	RCA	0,92	0,94	1	0,91	0,83
Italy	Argentina	Export	Animal	RCA	0,77	0,36	0,15	0,05	0,13
Italy	Argentina	Export	Chemical	RCA	1,19	1,08	1,12	1,14	1
Italy	Argentina	Export	Food Products	RCA	0,65	0,72	0,75	0,64	0,53
Italy	Argentina	Export	Footwear	RCA	0,14	0,16	0,08	0,18	0,22
Italy	Argentina	Export	Mach and Elec	RCA	1,68	1,8	1,83	1,97	2,09
Italy	Argentina	Export	Machinery and Transport Equip	RCA	1,12	1,17	1,2	1,27	1,38
Italy	Argentina	Export	Textiles	RCA	0,89	0,93	0,78	0,78	0,62
Italy	Argentina	Export	Vegetable	RCA	0,74	1,05	0,89	0,8	0,86

Similarly, it has been studied the case of ten Italian products. Here the most competitive products are: machinery and electrical equipment, transportation and chemicals. Right behind follows textiles, intermediate goods, and vegetables. Predictably, the case of machinery, electrical equipment, and transportation, follows the pattern discovered studying Italian exports. Confirming this, Italy presents a revealed comparative advantage on this sector. But the country also boasts sound indexes in this respect, selling chemicals and intermediate goods. Not so far behind the parameter 1 also is: vegetables and textiles.

Of the ten categories studied, Italy shows good performance against Argentina in at least six of them in the whole period under study and two categories more (consumer goods and food products with good, though random performance). On the contrary, Argentina, against Italy, boasts good indexes in only five of them, mainly related to the food industry with the exception of intermediate goods stated.

6. FINAL CONCLUSIONS

The aim of the work was to research on the relationship between Argentina and Italy seeking the detection of niches that represents trade opportunities for both countries. All of this within the framework of a future closing UE Mercosur trade agreement. The timing could not be more suitable for this topic:

Argentina has just ended a political and economic cycle with peculiar characteristics that was tacked in chapter II but the change of regime and the new presidency has brought fresh air and gives hope to finally re-establish the position of the country in the international scene.

In chapter II was described the last two economic cycles of Argentina to eventually give some perspectives on the current change of regime the country is going through. Argentina is the third economy of Latin America after Mexico and Brazil and it is expected to have a preponderant regional role in the short and medium term, especially being Brazil so affected for its domestic situation.

At the internal front, Argentina still has difficulties to overcome ahead. Inflation is not under control yet, fuelled by devaluation expectations, the public deficit is expected to be in the order of 6% of its GDP for the current year and the real economy is expected to be in recession still in the short and medium run.

The competitiveness lost in the last decade will be hard to recover in the short run. Many of the measures adopted as part of the external policy, are still in force, and the managed foreign trade system, has not yet been dismantled. Nevertheless, it can be identified some key points, were Argentina was proved to be competitive. One of such is the agribusiness sector.

In chapter III, it was studied the framework given by the two economics blocs: UE and Mercosur and the trade relationship they kept. EU is the first exporter in the world and Mercosur weight on its trade has no significant value. Conversely, the EU is the first partner for the Mercosur on Imports and Exports. European machinery and transport equipment ranks first as an import category. As for Mercosur countries, the exportable offer to EU is compound by primary products and manufactures derives from agricultural products. Though the chances of good ending negotiation between the EU and the South American bloc are still clueless and unpredictable, it is true that all the countries of Mercosur or at least most of them will profit from it. But it is an illusion infers that a free trade agreement would necessarily mean the automatic increase on exports and moreover that this increase would remain through times. There is only one factor that warranties an increasing number of exports: competitiveness. That is why in chapter V the competitiveness analysis was tackled thru the tool of the Revealed Comparative Advantage. An effective index to measure the comparative advantage or disadvantage a country has against the world for a given group of products.

As for the relation Italy and Argentina, the two countries are complementary economies: what one country offers in a competitive way, the other needs to get it from overseas.

Analysing the revealed comparative advantage on both side, it has been reach to predictable conclusions with some not so predictable surprises. Not surprisingly, For Argentina, food products, animal and vegetable reveals the country comparative advantage against Italy. Thus, Argentina's potential is set in exports of this kind of products. Its market share is higher than the average (in comparison to the share of exports of these products in world trade). This is an obvious conclusion verifying the trade profile of the country.

Additionally, what came out from the analysis is that not only Argentina has an advantage in the agrifood and commodity industry but also in two kinds of products: Intermediate goods and chemicals. Remarkable is the performance of intermediate goods, which show and RCA index above 1 in the whole period under study. That reveals a hidden opportunity for this sector in relation with Italy.

Conversely, as for Italy, the most competitive products are: machinery and electrical equipment, transportation and Chemical. Predictably, the case of machinery, electrical equipment, and transportation, follows the pattern discovered studying Italian exports. Verifying this, Italy presents a revealed comparative advantage on this sector. But the country also boasts sound RCA index, selling chemicals and intermediate goods and not so far behind the parameter 1 are also vegetables and textiles. Thus, Italy seems to have a wide range of products to compete and regain the Argentinian market. The case of machinery electrical equipment particularly represents an outstanding opportunity for Italy, in a said, free trade agreement framework. Argentina is in need of updating and modernizes the country infrastructure in a wide range of areas. The repute of Italian companies in the fields of infrastructure and exploitation of natural resources give Argentina a head start in this new phase of rebuilding the country announced by the new government. In this context, a successful regional agreement between UE-MERCOSUR will benefit both sides widening the opportunities in these areas.

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