Import Restrictions in Argentina and its Consequences in the Automobile Industry

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Introduction

In recent years, the Argentine economy has been affected by deficit situations in the balance of payments, which has forced the government to impose external restrictions such as limitations or controls on imports, restrictions on access to foreign currency, among other factors.

The restrictive measures have affected numerous national industries that, for their production process, require machinery, parts and supplies that are not produced in the country. One of the industries that have been affected by import restrictions is the automobile industry, which has been one of the most important because of its contribution, not only due to the employment of labor, but also the generation of revenues due to vehicle exports.

The Importance of automobile industry

Initially, the automobile industry in Argentina was characterized mainly by the development of production destined to supply the domestic market, with a scheme of automobile terminals of foreign origin and a large auto parts sector with national capital. Subsequently, based on the sectoral agreements with Brazil within the Southern Common Market (MERCOSUR) framework, there was a change from a logic based mainly on supplying the domestic market to another that aimed at the development of a fragmented production process at the regional level, based on logics global market. Therefore, there was also a 'foreignization' of the auto parts sector that could not accompany the modernization process with local development that led to the reconversion of the sector to adapt to the new global strategies of multinational companies[1].

The automobile value chain is central to the structure and productive dynamics of the country since it represents 10% of the industrial GDP, 1.3% of the global GDP, it is the leading exporter of manufactures of industrial origin (more than 35%) and generates 6% of registered industrial

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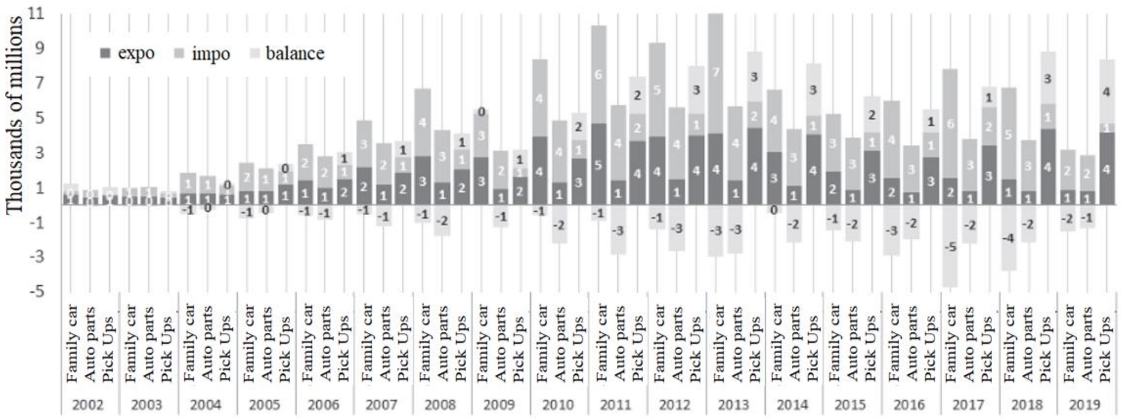
[1] See Spinosa, L.; Pereyra, S.; & Montes Cató, J. *Centralidades productivas en la industria automotriz: la territorialización del trabajo*. Astrolabio, 24:186-219.

employment[2]. The sector has focused on increasing the participation of national pieces, so that the Argentine component went from 19% to 40% in two years.[3]

In Argentina there are 11 automobile terminals that produce cars, pick-ups, light commercials, trucks, buses, and auto parts, and more than 400 auto parts manufacturers that manufacture air conditioning, exhaust, suspension, transmission, tires, batteries, pumps, filters, parts stamped, plastic parts, engine parts and seats, among others. Auto parts in Argentina were employing around 55,000 people directly in 2020. Approximately 70% of auto parts supply the terminal market, while the remaining 30% allocates its production to the replacement market. In both sectors there are companies with auto parts export operations; however, Argentine auto parts foreign trade shows traditionally a highly deficit balance[4] (see Figures 1 and 2). Additionally, the national government sent a bill to Congress to declare the Auto Parts Automobile sector as a strategic industry that offers tax benefits for new investments that generate higher returns, exports, and integration of local components in all links of the production chain.

Figure 1

Imports, exports, and balance of the automobile sector according to the type of good. In billions of dollars



Source: Pérez Ibáñez based on data from SCCE and ADEFA

Figure 2

Auto parts Trade Balance - In millions of dollars

[2] See *Beneficios fiscales para las automotrices: así es el proyecto de Gobierno para incentivar las inversiones en el sector*. iProfesional, 2021. Also Pan, C.A. *Relaciones entre automatización avanzada y empleo. El caso de la industria autopartista en Argentina*. Documentos de Trabajo. Agosto 2021. 805:1-74

[3] See Gutiérrez, F. *Los autos, síntoma de los problemas del modelo: con boom de demanda, la proyección de venta cae 15%*. iProfesional, 2021

[4] See AFAC. *Informe de actividad del Sector Autopartista (enero-julio 2021)*; AFAC. *Informe de Comercio Exterior de Autopartes - 1º semestre 2021*.

Source: AFAC based on ABECEB and INDEC

Import Restrictions

From the time of the financial crisis of 2008-2009, when there was a depression in the prices of primary export products that negatively affected the global trade balance, Argentina began to apply various protectionist measures, such as Non-Automatic Licenses (LNA), Advance Affidavits of Imports (DJAI), and quantitative restrictions in the exchange market. Although the LNAs did not affect vehicle imports, they had a significant impact on auto parts imports. The DJAI, for its part, had to stop being applied at the end of 2015 due to an adverse ruling against Argentina in the World Trade Organization[5]. In 2021, there were companies that were unable to access payment for imports, mostly because they did not have the structure to complete the forms and the sworn statement necessary to access the Central Bank dollars. There were some cases of large companies that had problems transferring foreign currency to their foreign suppliers.

In Argentina there are fundamental structural problems, which can be reflected, for example, in the fact that GDP per capita fell 12% between 2011 and 2019: and the fall reaches up to 16% if add the years 2020 and 2021. Even economic consultants predict that Argentina would take at least 10 years to return to the GDP per capita of 2011. In addition, the country needs to generate the genuine income of dollars to be able to compensate the imports of inputs, finished products and other sectors that require foreign exchange to be able to function normally. In fact, there is a lethargy in exports and a problem for growth. According to some specialists, Argentina had, in 2020, the least economic openness in the region. I believe with them that if economic policy is going to focus more on compression of imports than on increasing exports, it shows that decisions are based on outdated or politicized diagnoses of the reality[6].

Effect of Import Restrictions on the Automobile Industry

The measures of exchange restrictions and on imports in general have generated complications in the automobile industry. The deepening of currency restrictions puts the industrial sector in

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[5] See Dulcich, F.; Otero, D.; & Canzian, A. *Trayectoria y situación actual de la cadena automotriz en Argentina y Mercosur*. Ciclos en la Historia, la Economía y la Sociedad. 54, 2020.

[6] See *Argentina tardaría por lo menos 10 años en volver al PIB per cápita de 2011*. El Economista, 2021. Also, de Pablo, J.C. *Restricción externa: mismo problema, dos escenarios diferentes*. Documentos de Trabajo, 760:1-20. 2020; *Estancamiento del comercio exterior a pesar del superávit*. Mercado, 2021

an extreme situation. More than 80% of imports go to production, which, in turn, is largely exported. A vehicle that is produced in the country has around 70%, on average, of imported parts (see Figures 3.1 and 3.2)[7]. I have personally experienced these import restrictions and their negative effects on the automobile industry, when between 2012 and 2014 he worked in the Foreign Trade area of the Japanese company Honda. Those restrictions affected the production process of that company in terms of the delay in authorizing and releasing imports not only of parts and spare parts to produce motorcycles and vehicles, but also of capital goods that represent investments to improve the production.

Figures 3.1 and 3.2: Automobile production and auto parts imports (Figure 3.1) and Imported parts on production. In units (left) and dollars (right) (Figure 3.2)

Figure 3.1
Automobile production and auto parts imports

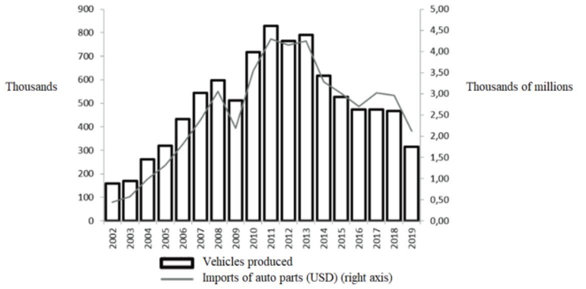
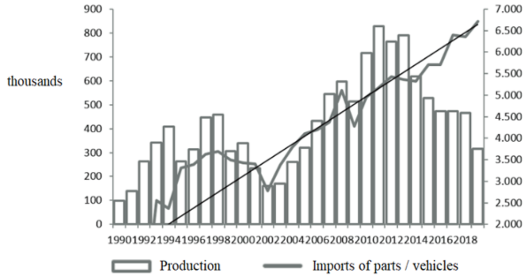


Figure 3.2
Imported parts on production. In units (left) and dollars (right)

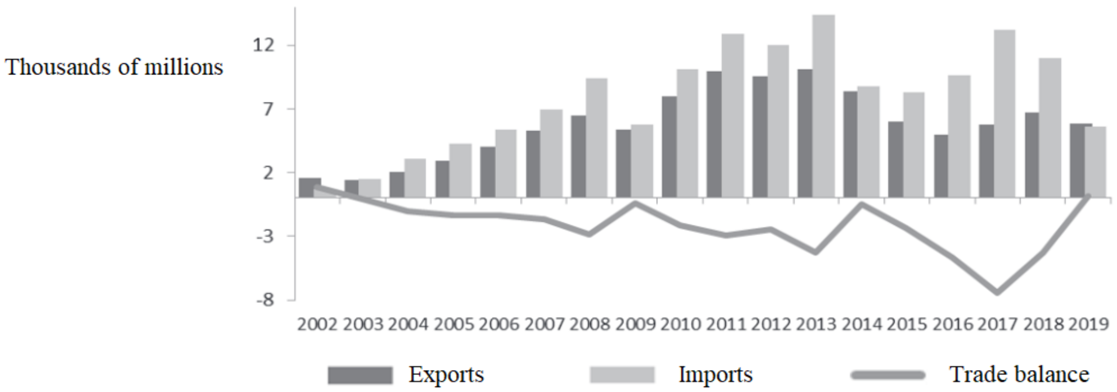


Source: Pérez Ibáñez based on data from SCCE and ADEFA

The situation of the automobile sector and its influence on the trade balance is not easy: on the one hand, the automobile production, after the productive transformations associated with global value chains, necessarily implies the presence and communication with the international market and, therefore, the local automobile manufacturing is incompatible with extremely protectionist trade policies. On the other hand, Argentina has been suffering losses in its reserves and, when the deficit sectors are looked at in the trade balance, the magnifying glass is placed on the automobile sector, because it is precisely one where historically there were greater imports than exports[8] as it can be seen in Figure 4:

Figure 4

Trade balance of the sector. In billions of dollars



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[7] See Alonso. *Restricciones más duras: advierten por impacto en industria automotriz*. Ámbito, 2021
[8] See Gabin, L. *En una semana, el BCRA quemó los dólares que compró en un mes: presión para endurecer el cepo*. iProfesional, 2021. Also, Pérez Ibáñez, J. *Industria automotriz argentina: triple estrategia de inserción en las cadenas globales (1990-2019)*. Realidad Económica. 342(51):9-42. 2021

Source: Pérez Ibáñez based on data from SCCE and ADEFA

The biggest obstacle that buyers will face is finding the vehicle they want available since, due to lack of stock, or change in marketing policy, fewer and fewer models remain in the brands' product portfolio. Due to limited imports, automakers began to prioritize some vehicles when defining purchases abroad and replace those segments with models produced in the country or with others that have a more active demand. It is estimated that due to a lack of dollars and a shortage of 0km, 40,000 fewer cars will be sold in 2021. In addition, they prefer to prioritize the quota of dollars to import parts for local manufacture, which then leaves more revenue through export. Based on this situation, nationally produced models are gaining market share and 7 of the 10 best-sellers in July were of national origin. On the other hand, another consequence of these import restrictions is the notable revaluation of used cars, which from the shortage of 0km cars began to increase their sales numbers and, also, their prices.

Conclusions and Future Expectations

It is necessary to take note of the productive transformations that have occurred at the global, regional, and national levels and understand them as part of a strategy of the automobile terminal sector. The Government might help to build exchange, fiscal and commercial policies aimed at the sector that account for the reorganization of the chain production and, thus, to retain foreign currency, labor, and value.

The obstacles to the entry of merchandise from abroad have impacted on the external commitments of many companies and on local supply. Although the vehicle manufacturing terminals are not the most affected, since they are multinationals with external support to import their own auto parts, the problem is generated in the national auto parts companies, mostly SMEs.

What was not said previously, is that it is necessary to understand the context marked by the concern of the Argentine government to reach a timely agreement with the International Monetary Fund (IMF) in relation to the payment of the debt of the South American country to this organization. In fact, for the IMF, the Argentine government must ensure the containment of the currencies that it has stored up. Hence, among other factors, the containment and control of imports is a crucial aspect for the Government.

With an adverse political scenario for the Government, marked by the recent legislative defeat in November, an economic plan must be developed, which is also required by the IMF, and which will have the automobile industry paying special attention to it. I adhere to the prevailing skepticism in the professional field about how these political and economic factors may affect the production and commercialization of vehicles in the year 2022. In this uncertain scenario, speculative maneuvers to anticipate a negative context have begun, such as, for example, the aforementioned advance to make imports -even with the existence of limitations-. But one thing is sure: until a deep plan of reforms is worked out to solve the structural problems - falling reserves, inflation, control over imports, tax pressure, among others - there will not be a favorable scenario that encourages foreign investors to bet on the automobile industry in Argentina.