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Structural reforms to boost
growth and living standards
in Argentina

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ECONOMICS DEPARTMENT

STRUCTURAL REFORMS TO BOOST GROWTH AND LIVING STANDARDS IN ARGENTINA

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By Alberto González Pandiella

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ABSTRACT/RÉSUMÉ

Structural reforms to boost growth and living standards in Argentina

Over the last decades Argentina's living standards have lost ground relative to other developed and emerging economies. Putting Argentina on a path to stronger, inclusive and job-rich growth requires boosting productivity and strengthening investment through wide-ranging structural reforms. Areas that require reforms include the regulation of product and labour markets, taxes, infrastructure, skills, innovation, trade policy, rule of law and financial markets. Beyond changing the rules, implementation and restoring institutional capacity are equally important. Enhancing competition, for which implementation and institutions are particularly relevant, would stimulate private investment, facilitating the creation of new firms and jobs, and would bring benefits to consumers through lower prices. Finding the right packaging and sequencing of reforms is important to exploit synergies across different areas, to manage trade-offs and to protect the vulnerable from the costs of adjustment. In this context, improving active labour market policies and training can support workers in acquiring new skills and in getting ready for new jobs, improving their capacity to adjust to a changing economy.

This Working Paper relates to the *2017 OECD Multidimensional Economic Survey of Argentina* (www.oecd.org/eco/surveys/economic-survey-argentina.htm).

JEL codes: E22, E24, E44, F13, F15, F16, H25, I25, J24, L11, O38, O40, O54

Key words: Argentina, productivity, investment, structural reforms, product markets, competition, labour market, taxes, trade, infrastructure, skills, financial markets, innovation, rule of law, active labour market policies

Des réformes structurelles pour stimuler la croissance et le niveau de vie en Argentine

Au cours des dernières décennies, le niveau de vie de l'Argentine a diminué par rapport à d'autres économies développées et émergentes. Pour orienter l'Argentine vers une croissance plus forte, inclusive et riche en emplois, il faut stimuler la productivité et renforcer l'investissement par le biais de grandes réformes structurelles. Les domaines nécessitant des réformes comprennent la réglementation des marchés de produits et du travail, les impôts, les infrastructures, les compétences, l'innovation, la politique commerciale, le régime de lois et les marchés financiers. Au-delà de la modification des règles, la mise en œuvre et le rétablissement des capacités institutionnelles sont tout aussi importants. L'augmentation de la concurrence, pour laquelle la mise en œuvre et les institutions sont particulièrement liées, stimulerait l'investissement privé, faciliterait la création de nouvelles entreprises ainsi que de nouveaux emplois et apporterait des avantages aux consommateurs grâce à la baisse des prix. Il est important de trouver le bon système et le bon équilibre des réformes afin d'exploiter les synergies dans différents domaines, gérer les compromis et protéger les personnes les plus vulnérables face aux coûts d'ajustement. Dans ce contexte, l'amélioration des politiques actives du marché du travail et de la formation peuvent aider les travailleurs à acquérir de nouvelles compétences et à se préparer pour de nouveaux emplois, améliorant ainsi leur capacité à s'adapter au changement économique.

Ce Document de travail se rapporte à l'*Étude économique de l'Argentine 2017* (www.oecd.org/fr/eco/etudes/etude-economique-argentine.htm).

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STRUCTURAL REFORMS TO BOOST GROWTH AND LIVING STANDARDS IN ARGENTINA

By Alberto González Pandiella¹

Over the last decades, Argentina has persistently lost ground relative to OECD countries and also relative to Latin America, hurting living standards and weakening confidence in public institutions. In 1950, per capita income was comparable to that of Western Europe and more than twice as high as in the rest of Latin America. Today GDP per capita is half of that of Western Europe and the historical income premium over other Latin American countries has almost disappeared (Figure 1).

More recently, terms of trade were highly favourable between 2003 and 20011 and led to higher incomes. But growth has been hampered by weakening institutions, widespread interventionist policies and longstanding distortions in prices and incentives. Competition, which induces firms to become more efficient or exit, has been traditionally weak and poor domestic policy settings have held back the competitiveness of Argentinian firms, impeding them from realising their full productivity potential. All of this has translated into one of the lowest investment rates in Latin America (Figure 2.A), and into stagnant multifactor productivity (Figure 2.B). The latter masks important differences across sectors. Agriculture or telecommunication services show a relatively good performance, but other sectors, notably non-tradable services, perform weakly (Coremberg, 2012). Price levels are also high in international comparison (Figure 3), affecting purchasing power and signalling the need for stronger competition.

Figure 1. Argentina has lost ground

Note: Western Europe includes: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and United Kingdom; Latin America includes: Brazil, Chile, Colombia, Mexico and Peru.

Source: OECD calculations based on Bolt and Van Zanden (2014) (see <http://www.ggdc.net/maddison/maddison-project/data.htm>).

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Figure 2. Investment and productivity are low

Source: OECD Economic Outlook 100 database and Centro de Estudios de la Productividad.

Figure 3. Prices are high

Note: Clothing and shoes prices are proxied by the price of a dress in a Chain Store. Car prices are proxied by the price of a Toyota Corolla or equivalent new car. Internet prices are those of a 10 mbps, unlimited data, cable/ADSL connection. Prices are converted to PPP dollars by using conversion rates published in IMF's World Economic Outlook.

Source: OECD computations based on Numbeo data.

The economy has also been volatile (Figure 4.A), well beyond the levels observed in other advanced and Latin American countries (Figure 4.B and Campos et al., 2014), due to poor economic policies and weak institutions (Acemoglu, 2003). Macroeconomic instability has generally been associated with poor growth performance, as both domestic and foreign investors tend to stay away and resources are diverted elsewhere (Ramey and Ramey, 1995). Macroeconomic volatility also places a heavy burden on the poor. For example, the burden of the high inflation that accompanied Argentina's boom and bust cycles is typically borne disproportionately by those in lower income brackets, whose real incomes plunge during busts and who lack access to financial instruments to protect themselves against inflation. Moreover, the low output growth typically associated with macroeconomic instability has a long-term impact on poverty and inequality of opportunities, as children from poor families tend to drop out of school during crises (Behrman et al., 1999).

Figure 4. Volatility has been high

Note: GDP volatility is calculated as the standard deviation of GDP year-on-year growth rates divided by the mean GDP growth rate.

Source: World Bank World Development Indicators database; and OECD Economic Outlook 100 database.

Argentina's potential to achieve high living standards remains large (Table 1.1). Its relatively large size provides opportunities to achieve economies of scale. Natural resources and the associated revenues they can generate, if properly managed, can be used to speed up growth, reduce inequality, and lift people out of poverty. In comparison to other countries, Argentina is relatively close to the United States, Europe

and Japan, and it is also in a convenient time zone, which is attractive for companies requiring real time communications with customers or headquarters.

To seize those opportunities raising productivity is crucial, underpinned by stronger investment and international trade. That would require comprehensive actions to reform institutions and regulations across multiple policy areas such as competition, business regulations, infrastructure, taxes, innovation, the rule of law, trade or education. Those reforms would also reduce the likelihood of further boom and bust cycles as those that Argentina has been through in the past, and would facilitate that living standards improve for all, in an enduring way. They would also put Argentina on a path to job-rich and more inclusive growth. Stimulating investment would facilitate the creation of firms and jobs, while improving productivity and competitiveness would enhance the prospects of Argentinians to move into better paying jobs. Argentina's success in some specific sectors, such as agriculture, wine or information and communication technology (ICT) services (more below), is suggestive of its capabilities to compete successfully in the global economy.

Table 1. Argentina's potential is large

		Ranking of Argentina with respect to		
		Latin America	OECD plus Argentina	World
Country size				
Surface area (sq. km)	2,780,400	2	4	8
Population	43,416,755	4	11	37
Labour force	19,540,451	4	12	37
GDP PPP (million of current international \$)	884,155	3	14	30
Natural resources				
Arable land (hectares)	39,200,000	2	4	8
Soybean production (million metric tons)	53.4	2	2	3
Natural gas production (terajoules)	1,512,840.0	2	8	23
Oil gas production	2,847	3	3	19
Lithium mine production (tonnes)	2,900	2	3	4
Proximity to markets	12,612	2	3	4

Note: Proximity to markets is proxied by the average distance to Brussel, Tokyo and New York (kilometres).

Source: World Bank World Development Indicators; U.S. Department of Interior U.S. Geological Survey; UN Energy Statistics Database; and OECD calculations.

Structural reforms will lift growth and well-being

In December 2015 the authorities put in place a landmark package of reforms. These reforms have already improved confidence and created conditions for reigniting growth and job creation. Going forward, a full implementation of the reforms already initiated and of complementary reforms to tackle remaining structural bottlenecks is crucial to make the on-going recovery stronger, increase employment and raise living standards and well-being. OECD estimates show that a package of reforms could boost GDP significantly over the next decade (Table 2). Policy reforms that would align Argentinian policy settings with the OECD average could increase GDP by 15% in 10 years. Less ambitious reforms that would align Argentina with Chile, Colombia and Mexico would raise GDP by 8% over the same horizon. These estimates represent a lower bound since some reforms, such as those in education, access to finance and the rule of law, fall outside the scope of this quantification framework, but evidence suggests that they also have significant growth effects over time (Egert, 2017 and Melguizo et al., 2017). Among the different

policy areas, product market reforms are the ones with the highest growth pay-off, followed by a reduction in trade barriers, improvements in the tax structure and labour market reforms. The potential benefits from reforms in these individual policy areas will be discussed in more detail in the rest of the paper.

The reform agenda will improve people's material living standards. Reforms boosting productivity should translate into higher wages, but there is a need to ensure that all Argentinians benefit from the fruits of reforms and that those who may be initially hurt by the transition get adequate support. This will be essential to overcome political economy obstacles to fundamental reforms in Argentina (Box 1).

Table 2. Additional structural reforms will pay off¹

	Scenario 1	Scenario 2
Accumulated effect on GDP per capita over 10 years from:	Convergence to selected Latin American peers ²	Convergence to OECD average
Product Market Reforms	3.8	4.4
Barriers to entrepreneurship	1.7	2.0
Governance of SOEs	0.9	0.9
Competition framework	1.2	1.5
Trade barriers	3.2	4.1
Labour market reform	0.5	1.4
Tax reform	1.0	3.4
R&D business expenditure	0.0	1.9
Total	8.5	15.3
<i>Corresponding average annual growth increase:</i>	<i>0.8%</i>	<i>1.5%</i>

1. . Estimated impact on GDP per capita over a 10-year horizon, in percentage. These estimates are subject to uncertainty with respect to their size and timing. See Annex for the methodology used to estimate the impact of reforms.

2. For this exercise peer Latin American countries refer to OECD Latin America countries (i.e. Chile and Mexico) plus Colombia.

Source: OECD calculations.

Box 1. Making reform happen in Argentina

Carrying out reforms is complex and involves a wide range of political economy and country-specific considerations, but OECD evidence suggests a number of basic principles that have often been successful in making reform happen (OECD, 2010). For example, getting the sequencing of reforms right is crucial. At the current juncture, Argentina should favour a swift implementation of key reforms that can stimulate medium-term productivity and at the same time support investment and job creation in the short-term. This is the case for product market reforms that facilitate the entry of new firms, as this is likely to translate into job creation (OECD, 2016a). Likewise, shifting the composition of public spending towards investment in infrastructure can both boost medium-term potential growth and stimulate demand in the short-term. Given how closed the economy is, a swift removal of trade barriers in certain sectors, such as those providing capital inputs to other parts of the economy, could also provide significant short-term benefits.

Reform packaging can also facilitate the implementation of reforms, as it helps to maximise the benefits through synergies across multiple areas (OECD, 2017a). Reforming product and labour markets simultaneously would allow new firms to create new jobs and workers to transition more smoothly between jobs. Changes to job protection or trade policies could be best done in tandem with improving active labour market policies and training so as to support workers in acquiring new skills and in getting ready for new jobs. A package of reforms will also share their burden between various interest groups helping acceptance.

Finally reducing policy uncertainty helps. Reform strategies that are well communicated can provide clearer guidelines and incentives for firms and workers. Communicating clearly the direction, the sustainability and the expected benefits of policy decisions, with a special focus on communicating who would benefit most from them, will boost confidence and create more ownership of the reform programme. Communicating the cost of not reforming is also useful, as this is large and accrues to vested interests. Communication should shift from emphasising the cost for some firms towards the benefits for consumers and job creation, particularly as concerns trade policies.

There are also benefits to ensure coordination across different policy areas and to avoid policy silos so as to manage trade-offs and exploit synergies. To that end, many countries in the region and in the OECD have established productivity commissions (Banks, 2015). Argentina has set up a presidential council labelled *Argentina 2030*, tasked with advising on how to boost growth, involving both academics and private sector participants. This council has the potential to play a similar role as productivity commissions in identifying obstacles to productivity growth and proposing policy options to overcome them. The experience of other OECD countries shows that successful reforms are generally based on a good diagnostic and quantification of the benefits. Thus, providing the presidential council with the support of a technical unit could be useful so that the council can provide evidence-based policy advice, contributing to improving the quality of policy and the prospects for its implementation.

Gains from product market reforms would be large

Regulations on product markets serve legitimate objectives but can impose unnecessary restrictions on competition, and therefore on growth, living standards and ultimately well-being. They can also have “knock-on” effects on non-regulated sectors of the economy that use the output of the regulated sectors as intermediate inputs. For example, inadequate regulation of the electricity sector will have effects on other sectors such as manufacturing where electricity is an important input. A recent update of the Product Market Regulation (PMR) indicator for Argentina, undertaken jointly with the World Bank, suggests that Argentina tops the list of countries with respect to the restrictiveness of its regulations (Figure 5). Improving product market regulation will allow stronger competition, which will raise productivity and hence the ability to pay higher wages. By reducing entry barriers in sectors with large pent-up demand it can facilitate firm creation, boosting investment and job creation relatively fast (OECD, 2016a). Moreover, product market reforms can be inclusive in that they tend to lift incomes of all households across the income distribution by boosting both employment and productivity growth (Causa et al., 2016). OECD estimates suggest that GDP would be up to 4.4 percentage points higher over the next years if Argentina were to align its product market regulations with international standards. Reducing barriers to entrepreneurship, including obstacles for firm’s start-up and growth, improving the governance of state owned enterprises and buttressing the competition framework towards best standards offer large pay-offs in terms of growth (Table 2).

Figure 5. There is room to improve product market regulations

Note: s: How to read this chart: The OECD indicators of product market regulation are synthetic indicators that summarise a wide array of different regulatory provisions on product markets across countries, with a focus on the degree to which these regulations restrict competition. They are expressed on a scale from 0 (least restrictive) to 6 (most restrictive). Data for Argentina are for 2016 and preliminary, based on an update undertaken jointly with the World Bank. For other countries data are for 2013 or last available year.

Source: OECD Product market regulation database.

Barriers to entrepreneurship are high

According to OECD's Product Market Regulation indicators, Argentina has one of the highest barriers to entrepreneurship in Latin America, well above those in Mexico or Chile (Figure 6.A). The World Bank's Doing Business indicators show a similar picture, with Argentina ranking 116th out of 190 countries. Regulatory procedures are complex and long, especially those related to obtaining licences and permits (Figure 6.B). Procedures and regulations depend on the location of the firm and on the economic activity, and no coordination between different levels of government. On average there are 40 procedures to comply, half at federal level and half at local level, and it takes from 45 to 60 days to open a business. Besides acting as a barrier to investment and entrepreneurship, these barriers can also enhance the scope for corruption.

Figure 6. Barriers to entrepreneurship are high

Source: OECD Product market regulation database. Data for Argentina are preliminary and refer to 2016, based on an update undertaken jointly with the World Bank.

High barriers to entrepreneurship, and in particularly those deterring entry, can hamper significantly the creation of new firms. In turn, the absence of the disciplining effect of competition from new entrants, firms tend to grow less, remain small and be less productive (Klapper et al., 2006). Some of these features are very noticeable in Argentina's manufacturing sector, with few young firms (Figure 7). The average Argentinian firm is 27 years old, well above average ages observed in Latin America (21 years) and OECD economies (17 years) (Enterprise Survey, 2014). OECD work based on cross-country firm level data indicates that young firms create more jobs (Criscuolo et al., 2014). Over the last decade and across all countries analysed, 42% of all jobs were created by enterprises less than 5 years old.

Reflecting the key role of young firms in job creation, public policies have increased their focus on start-ups both in OECD countries and in Latin American countries (OECD, 2016b). Argentina recently approved a new entrepreneurship law (*Ley de emprendedores*), aimed at supporting the creation and financing of start-ups, and a SMEs law (*Ley de PYMEs*), reducing some taxes for SMEs and aiming at improving financing. Given the role for young firms in job creation, it will be important to undertake a sound evaluation of both laws and assess their effects on firm creation and on improving access to finance by young and innovative firms. The evaluation would provide evidence about which of the support and finance mechanisms introduced by both laws work and should be extended, and which ones are not effective and should be phased out.

Effective insolvency regimes can also play an important role to foster entrepreneurship and productivity (Adalet McGowan and Andrews, 2016). Argentina's insolvency procedures are in line with the Latin America average but are less efficient than in some regional peers such as Colombia or Chile, or than those found in OECD countries (World Bank, 2017). Improving insolvency procedures, by making them more agile and less costly, would boost entrepreneurship by providing second chance opportunities to entrepreneurs. They can also help to boost productivity and competition by increasing firm creation (Cumming, 2012) and by facilitating that capital and financing moves to new and young firms, which, in turn, would boost job-creation.

Figure 7. There are few young firms

Source: OECD computations based on World Bank Enterprise survey database.

Lack of comprehensive firm level data impedes a detailed firm-level productivity analysis, but existing information for the manufacturing sector indicates that the gap between the best performing firms and the rest has increased. This is in line with evidence for OECD countries (Andrews et al., 2015). Nevertheless, contrary to evidence in OECD countries, where firms at the global frontier experienced robust productivity growth in the 2000s, productivity of best performing firms in Argentina has also fallen

(Figure 8). This suggests that the impediments for productivity growth in Argentina are binding and affect all firms in the manufacturing sector. Firm level analysis indicates that resource misallocation in the Argentinian manufacturing sector is large (Neumeyer and Sandleris, 2010). The potential gains in terms of aggregate total factor productivity of moving to a more efficient allocation of capital and labour could have reached 60% almost a decade ago (Neumeyer and Sandleris, 2010; Busso et al. 2013). Given the increase in economic distortions since then, it is likely to be even higher now. Improving product and labour market regulations, boosting competition and skills, enhancing access to finance and reforming the tax system, as discussed in this paper, would help to move towards a better allocation of resources.

Figure 8. The productivity of all firms has fallen

Note: "Frontier firms" is the average labour productivity (value added per worker) of the 5% most productive firms. "Non-frontier firms" is the average of all firms, except the 5% most productive firms. For the OECD calculations frontier firms are selected among all firms in the OECD within each sector, as described in Andrews et al., (2015). For Argentina frontier firms are the 5% most productive Argentinian firms in the manufacturing sector.

Source: OECD computations based on Enterprise Surveys for Argentina; Andrews et al., (2015) for OECD.

Facilitating firms start-up and growth

The recently approved entrepreneurship law (*ley de emprendedores*) aims at facilitating firms' start-up by creating a new type of firm, which can be set up in one day. To complement this initiative, Argentina would benefit from adopting OECD best practices in the area of licensing, such as using systematically the 'silence is consent' rule, whereby the licenses for non-hazardous activities are issued automatically if the competent licensing office has not acted by the end of a statutory response period. Additionally, setting-up single contact points for issuing or accepting notifications or licences have proved useful across OECD countries to reduce barriers to entrepreneurship. Portugal's experience exemplifies how effective these initiatives can be: procedures, costs and delays for opening a business are now 4, 6 and 19 times lower, respectively, than a decade ago (OECD, 2017b). One-stop shop services, including online, have also proved useful in countries with high incidence of informality, such as Brazil and Mexico. By facilitating more flexible and simple registration procedures, especially online, they reduce the cost of going formal, particularly for micro and small firms and can reduce opportunities for corruption. Argentina has recently enhanced the scope for paperless procedures, which is a step in the right direction.

The existing regulatory framework also fragments the domestic market, acting as a barrier for firms to grow. Regional and local authorities often impose extra requirements on companies from other parts of the country. This results in a very low intensity of local competition (Figure 9), contributing to a loss of competitiveness abroad and higher prices domestically. By reducing the scale of production, these barriers

also hamper productivity, and they also have a detrimental impact on job quality, as employment conditions tend to be better in larger firms (Gibson and Stillman, 2009). Argentina would benefit from introducing an explicit programme to reduce and eliminate administrative burdens imposed by government at all levels. Similar programmes have been set up in some OECD countries such as Australia, Canada and Spain. In Spain, all legal texts enacted by local, regional and central governments found to be inconsistent will have to be amended in the subsequent six months if they create internal barriers to trade, and mutual recognition principles between regions are being established (González Pandiella, 2014). The Council of Australian Governments, established in 1992, has focused on in-depth harmonisation of legislation, standards and regulations among the states. Canada also faces challenges with internal barriers to trade and investment arising from overlapping federal, provincial and territorial regulatory responsibility over many economic policy areas. It established the so-called Agreement on Internal Trade in 1995, an intergovernmental agreement according to which parties agree to a set of general rules to prevent governments from establishing new trade barriers and to reduce existing ones. The Agreement has been recently updated and its scope enlarged (OECD, 2016c).

Figure 9. The intensity of local competition is low

Source: World Economic Forum Global Competitiveness Index Dataset.

Making the business sector more gender inclusive

The business sector has few firms with female top managers (Figure 10.A), well below those observed in other Latin America and in the OECD. This indicates that Argentina is not exploiting the potential that a more gender inclusive business sector can offer, for example by providing a broader understanding of customer needs and a wider range of management practices. The presence of female top managers signals the existence of high paying jobs for women and therefore can effectively encourage other women to seek better employment (Amin and Islam, 2014). This would be particularly important in Argentina, where female labour market participation is relatively low (Figure 10.B and OECD, 2017), including among high-qualified women.

Promoting gender diversity in leadership positions both in private companies and public sector, for example by using gender quotas in management, can contribute to enhance diversity and improve economic outcomes. Policies that promote gender balance on boards and in senior management have been initiated in a majority of OECD countries. Countries that have adopted a quota, such as Norway (Sorsa, 2016), saw a more immediate increase in the number of women on boards, while those that took a softer approach, using disclosure or targets, have seen a more gradual increase over time. More generally, bringing gender issues into the public debate through information campaigns would help to raise awareness for the existence of gender inequalities and for the potential benefits of a more gender-inclusive business sector.

Figure 10. The share of firms with a female top manager is low

Source: World Bank Enterprise survey database; World Bank World Development Indicators database.

Increasing female representation in top management can also help to improve management quality and firm performance (Dezső and Ross, 2012). This would be particularly relevant for Argentina, as internationally surveys of management quality suggest that Argentina's manufacturing sector hosts a significant fraction of firms whose quality of management lags behind management practices in other countries (Bloom et al., 2014). Empirical research suggests that many of these firms would probably have been driven out of the market if competitive pressures were stronger (Bloom et al., 2014). The quality of management plays a crucial role for productivity, as better-managed firms can avoid losing time on non-productive tasks and employ more efficient production technologies or better intermediate inputs (Andrews and Westmore, 2014).

Strengthening the governance of state owned enterprises

State owned enterprises (SOEs) play a sizeable role in Argentina. The SOE sector is large (Figure 11.A), with 67 fully owned SOEs and minority share ownership in another 70 enterprises (OECD, 2015a). They are important in many sectors such as oil and gas, electricity generation, air and rail transport, paper, banking and shipyards, among others. The performance of these sectors has wide-ranging knock-on

effects in the whole economy. The budget allocation for SOEs has increased significantly, with transfers amounting to approximately 1.1% of GDP.

SOEs performance is heterogeneous, with some of them generating large deficits despite sizeable government subsidies and monopolistic conditions. Argentina ranks unsatisfactorily in terms of SOEs governance, both in comparison with OECD and other Latin American countries (Figure 11.B). Auditing processes are heterogeneous. A paradigmatic case is *Aerolineas Argentinas*, the re-nationalised airline company making large losses despite receiving 300 USD millions (0.06% of GDP) in subsidies in 2016. Most recent approved accounts date back to 2013.

Due to their privileged position, SOEs may also negatively affect competition and it is therefore important to ensure that, to the greatest extent possible, they are subject to similar competition disciplines as private enterprises. Although enforcing competition rules against SOEs presents enforcers with particular challenges, competition rules should apply to both private and state-owned enterprises (OECD, 2009a).

International evidence shows that corporatizing SOEs can yield large efficiency gains (OECD, 2016d). Adherence to the OECD Guidelines on Corporate Governance of State-owned Enterprises (OECD, 2015b) can help in addressing governance challenges usually faced by state-owned enterprises attributable to political interference, lack of incentives to improve performance and complex institutional arrangements. A review of SOE corporate governance to align practices with OECD/G20 Guidelines on SOEs is currently underway (OECD, 2015d).

Figure 11. The scope of SOEs is large and its governance could be improved

Note: How to read this chart: In Panel A, a higher value indicates a larger scope of SOEs. In Panel B, a higher value indicates less sound governance. Data refer to 2013.

Source: OECD Product market regulation database.

Argentina should establish a central state ownership agency, as outlined in the OECD Guidelines on Corporate Governance of State-owned Enterprises. Alternatively, if this is not feasible, sufficient coordination to ensure that ownership is exercised on a whole-of-government basis should be ensured. The government has recently created a Coordination Council of State owned enterprises, under the umbrella of the office of the Cabinet of Ministers, which is a promising initial step to move towards a more consistent, coordinated and transparent treatment of SOEs. The authorities should also define more clearly the rationale for owning individual SOEs, and establish and monitor the implementation of mandates and

objectives, including financial and non-financial targets. The ultimate purpose of state ownership should be to maximise value for society, through an efficient allocation of resources and quality of services. For those SOEs displaying recurrent poor performance, the government should consider alternative ownership structures or revising the management incentives.

For those SOEs remaining in public ownership, another acute challenge concerns the selection and accountability of SOEs board members. Argentina has no mandated requirements for a formal nomination process, with the exception of listed companies. Positions on the board are not openly advertised and nominations are based on political decisions (OECD, 2015a). Well-structured, merit-based and transparent board nomination processes would likely lead to better management choices.

Fostering competition

Aligning to OECD standards in competition policy could generate significant growth and well-being dividends. Competition has been weak due to inefficient regulations, a deficient anti-cartel framework, extensive state ownership and arbitrary government interventions. Argentina was once a regional pioneer with respect to its competition framework, but today it is well behind regional peers, following years of insufficient budget (Figure 12), lack of independence of the competition agency and weak enforcement. Improving the competition framework should be a cornerstone of the on-going effort to improve institutional quality. Good progress has already been achieved. The National Competition Authority has been restructured and a law has been sent to Congress, intending to grant the Authority more independence, a clearer mandate, more resources to conduct investigations and the ability to impose higher fines. The law also introduces a leniency program and a specialised competition court. The latter would increase efficiency and decision quality due to the skills and experience of the judges reviewing and understanding economic evidence, and to the standardisation of tasks (OECD, 2016f).

Figure 12. The competition authority has a low budget

Note: Data are for 2012. Chile includes the sum of the Tribunal de Defensa de la Libre Competencia and Fiscalía Nacional Económica. Budget data for Brazil is provided in Brazil Real and converted to USD using 2012 average exchange rate.

Source: Centro Regional de Competencia para América Latina and World Bank, World Development Indicators.

Argentina has in the past enacted relatively good competition laws (OECD, 2006) but implementation and enforcement of existing laws has been weak. To avoid repeating mistakes of the past, an effective independence of the competition authority is crucial. Two aspects that could be reinforced are the formal status of the authority in relation to the executive and its budget. While it is foreseen that the authority will become a decentralised body, it will still depend on the executive branch, which may limit its

de facto autonomy. Establishing a legal separation from the executive will provide the authority with clearer and more effective autonomy. Similarly, it is foreseen that the budget will be decided on an annual basis. Since it is fundamental to guarantee that the authority will have adequate funds and human resources on a long-term basis, introducing multi-annual budgets would provide the authority with more financial security and insulate it better from political interference.

In addition, higher threshold levels for mandatory examinations of merger and acquisition cases, which are currently set at USD 12.5 million of joint annual turn-over, would allow a better focus on investigating cases of anti-competitive conduct rather than minor concentration cases. Competition powers tend also to be more effective when they are supplemented by a requirement for entities subject to recommendations to provide a written response within a fixed time period, as is done in the United Kingdom. Implementing a “comply or explain” rule would boost competition culture.

Evaluating whether planned or existing regulations can restrain competition should also be a more substantial part of the work of the authority. At present, when ministries or government agencies pass new laws or rules, they are not formally obliged to assess the impact on competition. It is up to the ministries or government agencies to do so. Introducing a legal obligation for the executive to systematically submit all new laws with a potential to affect competition to a regulatory impact assessment has proven effective in many OECD and Latin America countries, including Mexico (OECD, 2014a).

There is also a need to focus limited resources to areas where competition assessment may be most needed. The OECD’s Competition Assessment toolkit can be helpful for that, as it provides a systematic method to efficiently screen laws and regulations in specific sectors for unnecessary side-effects on competition (OECD, 2016e). It also helps to identify and develop alternative, less restrictive measures that still achieve government policy objectives.

Improving labour market regulations

Labour market regulations should strike an adequate balance between protecting workers’ rights and avoiding excessive rigidities that can hamper the good functioning of the labour market. Excessive rigidities or burdensome regulations raise labour costs and may prevent the reallocation of workers to more productive activities, as the one the Argentinian economy needs to undertake. Excessive labour market rigidities also tend to favour relatively better-off groups, such as formal sector workers on regular contracts, at the expense of more disadvantaged groups, including the unemployed or informal workers (OECD, 2016g). Where formal hiring presents high risks, for employers as a result of excessive rigidities, they may also be more inclined to resort to informal employment (OECD, 2008). With a third of the workforce in informal employment, this is a relevant issue for Argentina.

Some aspects of labour market regulations are more rigid in Argentina than in other Latin America countries and in the OECD on average, as measured by the OECD’s employment protection legislation indicators (Figure 13). In particular, termination costs are among the highest, and the procedures for collective dismissals, for example notification requirements, are relatively complex and can apply already from a relatively low level of 10 workers.

Figure 13. Labour market regulations are relatively rigid

2014 or last available year

How to read this chart: The OECD indicators of employment protection are synthetic indicators of the strictness of regulation on dismissals and the use of temporary contracts, expressed on a scale from 0 (least restrictive) to 6 (most restrictive). They are compiled from 21 items covering three different aspects of employment protection regulations as they were in force on January 1st of each year.

1. Reflects an average of severance pay requirements after 4 and 20 years of tenure. 2. Latin America includes: Brazil, Chile, Colombia, Mexico and Peru.

Source: OECD/IAB Employment Protection Database, 2013 update.

The use of temporary contracts, including apprenticeships, is restricted to a limited number of specific circumstances (Figure 13.C) and may imply significant legal risks for employers. This increases incentives for informality because businesses may resort to informal labour to smooth fluctuations in demand or seasonal production schedules (OECD, 2008). Temporary employment can be a stepping stone for young to enter the labour market under specific circumstances (OECD, 2014c). This would be particularly pertinent for Argentina, given the number of youths outside the labour market and education (OECD, 2017g). At the same time it is important to avoid creating a dual labour market, where workers on permanent contracts enjoy protection and job stability while the rest of workers are confined to move from one temporary contract to another. A useful balance can be struck by allowing temporary contracts with relatively few restrictions while at the same time increasing protection on such contracts, particularly termination costs, gradually as job tenure increases. In practice, this creates a gradual convergence between temporary and permanent contracts, although it is unlikely that full convergence can be achieved (see OECD, 2014c).

Protecting workers with training and unemployment insurance rather than with strict regulations

Modernising labour market regulations would lead to more formal and better matching between the supply and demand of skills, thus resulting in higher productivity and better-paying jobs. At the same time, there is significant scope for improving active labour market policies, such as training and job counselling, and making them more effective in helping Argentinians to gain employment. Therefore changes to regulations should be implemented in tandem with stronger active labour market policies, in particular training, and also with adequate income support for the unemployed (OECD, 2017g). Spending on active labour market policies remains below the OECD average (Figure 14.A). In addition, 75% of the spending goes to finance public work schemes, while the share of spending on training is lower than in Chile, Colombia or the average OECD country (Figure 14.B). Public work schemes provide a safety net

and contribute to local development but are less effective in increasing the future employability of participants (Brown and Koettl, 2015). Thus, scaling up active labour market policies and shifting spending towards those schemes that support the acquisition of new skills, such as training, would better support that Argentinians get ready for the new jobs that will be created.

Figure 14. Spending on active labour market is very concentrated in public work schemes

Source: OECD Public expenditure and participant stocks on LMP database; ILO; and ILO (2016) "What works. Active labour market policies in Latin America and the Caribbean."

Several Latin American countries managed to make labour market policies more effective by adding an active labour market component, such as training and education, to existing conditional cash transfer programmes (Cecchini and Madariaga, 2011 and González Pandiella, 2016). Cash transfers provide income support in times of need but they can become more effective if supplemented by a training component that improves participants' chances to find more autonomous and sustainable income generation opportunities. The experience of Argentina with these types of programmes is positive. Empirical evaluations suggest that participation in a scheme combining a cash transfer with training is associated with better wages and higher chances of accessing formal employment (Lopez Mourelo and Escudero, 2016). Thus, expanding such schemes can be an effective way to provide support to those more affected by the reallocation process that the Argentinian economy has started and, at the same time, empower participants to benefit from the new jobs that Argentina will be creating.

Collective bargaining systems are also a fundamental ingredient of well-functioning labour markets. OECD evidence suggests that employment can decline when wage agreements become binding far beyond workers and firms that were represented in the negotiations (Gal and Theising, 2015). In these cases, the inability to adjust wages can shift the adjustment onto employment (De Serres and Murtin, 2013). In Argentina, collective bargaining tends to take place at the level of entire sectors and covers more than 70% of workers although only 30% of workers are unionised (Lamarche, 2015). Empirical work based on Argentinian data suggests that more decentralised bargaining at the firm level would increase productivity by providing more flexibility to respond to market changes (Lamarche, 2013). Avoiding the extension of wage bargaining agreements beyond its signatories and a wider use of opt-out clauses could also ensure a better alignment between wage increases and the productivity growth of firms. The economic literature suggests that centralised wage bargaining at the national level can perform equally well (Calmfors and Driffill, 1988). However, in the context of emerging market economies with highly dispersed productivity levels across sectors and firms, and given the rapid structural transformation that the economy is going through, this avenue may not bring the same benefits as in advanced economies.

Labour agreements have also regularly resulted in other rules that led to higher labour costs, including a high dispersion of overtime, commuting or regional supplements. A recent strategy by the authorities has been to promote project- or sector-specific agreements between unions and the corporate sector to attract new investment. These agreements rein in future wage costs and reduce investor uncertainty, which has helped to make several investment projects viable.

Argentina could also benefit from making work time arrangements more flexible through the introduction of an individual bank of hours, according to which employees and employers agree on a number of hours that can be used flexibly in agreement between the employee and the employer. This scheme has proved useful in a number of countries, such as Portugal (OECD, 2017b), as it helps to respond smoothly to production cycle fluctuations or variable work patterns.

High non-wage labour costs can also curb employment. Argentina's social security contributions amount to 35% of wages, which is high in international perspective. In addition, insurance premiums against work risks can reach a further 20% of wages. The high insurance premiums are driven by high levels of litigation, which have risen in recent years despite a significant fall in the number of accidents. The government has recently introduced compulsory medical procedures to be pursued prior to referral to the justice system. This may curb litigation in certain cases, although care should be taken to avoid simply adding another administrative step to the dispute settlement process. There is a broader need to establish agile administrative out-of-court procedures to settle labour disputes and avoid that nearly all labour disputes end up in courts, implying high costs and uncertainty. This avenue has been followed by many OECD countries, which have institutional procedures to resolve labour disputes before they reach court (OECD, 2013a).

Making the tax system more conducive to investment

A complex and inefficient tax system is hampering productivity, investment and the competitiveness of firms. At the same time, it contributes little to improve distributional outcomes. The tax burden has increased by over 7 percentage points of GDP over the last decade and at 32% of GDP, it is well above the regional average and only slightly below the OECD average.

The statutory corporate income tax rate of 35%, which will be reduced to 25% over the next 5 years, is high by international standards (Figure 15), even among Latin America countries, which tend to have higher rates than advanced economies. But the effective tax burden is even higher due to a provincial turnover tax (see below). Moreover, in the current high inflation environment, a failure to adjust depreciation allowances for inflation increases significantly the marginal tax rate on new investment

(Artana et al., 2015). The negative effect on incentives to invest are a likely channel why higher corporate income taxes have been associated with lower productivity in the empirical literature (Schwellnus and Arnold, 2008). Shifting some of the tax burden away from corporate taxes, as envisaged with the recent tax reform, could therefore be part of a productivity-enhancing tax reform. There is also room to broaden the corporate tax base by eliminating some deductions and loopholes.

Figure 15. The statutory corporate income tax rate is high

Source: OECD Tax database; and Ministry of Economics of Argentina.

Recurrent taxes on immovable property have generally been found to be less harmful for economic growth than income taxes (Arnold et al., 2011) and could be used more in Argentina. While the average OECD country raises 3.3% of tax revenues from such taxes, they account for only 1.2% of revenues in Argentina. Updating housing values on a regular basis will be crucial for raising more revenues from property taxes. Moving towards a progressive tax schedule could improve the distributional footprint of property taxes. Raising recurrent property taxes could be easier to achieve at the current juncture as the mortgage market is starting to develop. There is also some room to collect more taxes from environmentally related taxes: Argentina raises 1.2 % of GDP, in comparison with an OECD average of 1.6% and with 2.2% raised by Costa Rica.

While particularly distortive export taxes have been largely eliminated, some highly distortive taxes remain. One of them is the provincial turnover tax (*impuesto sobre los ingresos brutos*), which is levied on sales at every stage in the supply chain. As a result, this tax has a cascading effect and, creates an artificial incentive for vertical integration, as there is no deduction for the tax paid at earlier stages (as there would be in a VAT), and reduces competitiveness. It also acts as an interprovincial tariff barrier, as different tax rates are applied depending on the origin of goods. Some provinces have increasingly and arbitrarily even taxed economic activities undertaken in other jurisdictions (Dapena and Volman, 2014), creating additional distortions and regulatory uncertainty. In its current form, the turnover tax is clearly a poor choice, but it raises significant revenues for provinces, which would need to be replaced by revenues from other sources.

Integrating this turnover tax into the existing VAT by converting it into a surcharge on the same tax base would reduce distortions and make the tax system more conducive to investment. However, such a move would lead to a redistribution of revenues across provinces and may require at least temporary compensation mechanisms among provinces, coordinated by the federal government, to become politically viable. India is a recent example of eliminating various state taxes and introducing a VAT on all transactions, part of which is then distributed to states (OECD, 2017c). In Argentina, such a step would lead to very high VAT rates unless some tax revenue is shifted towards other taxes, such as property and environmental taxes and a base broadening for personal income taxes, which is currently only paid by 10% of the population. There is also room to broaden the base of existing value added taxes (OECD, 2017g).

Another highly distortive tax is the financial transaction tax, which is levied on every transaction in checking and saving accounts. This tax creates incentives to settle payments in cash, acting as a barrier for financial inclusion and formalisation. Moreover, it also hampers the development of financial markets by driving down the level of deposits (Fenochietto et al., 2014). Its rate of 0.6% on the volume of transactions is the highest among the countries that levy this type of tax, which include Colombia and Peru. Currently this tax raises 1% of GDP in revenues, which makes it difficult to replace in the short term. But given the pressing need to curb informality and to foster the development of capital markets, alternatives with less distortive effects should be considered.

Argentina has also put in place a system of tax reimbursements (*reintegros a la exportación*) to compensate exporters from the effect of certain taxes deemed by the authorities to be “distortive” and detrimental for exporters, such as the provincial turnover tax, the financial taxes or municipal taxes,. However, these reimbursements also create distortions of their own as they are discretionary, subject to political negotiations, and favour incumbent firms to the detriment of new and young firms. A better way forward would be to tackle the problem at the root through a comprehensive tax reform that would strengthen investment, exports, productivity and job creation at the same time. Chile, Colombia and Mexico have recently implemented comprehensive tax reforms and are now starting to reap the benefits (OECD, 2015c, OECD, 2017d and OECD, 2017e).

More generally, there is also a pressing need to simplify the tax system. There are more than 35 taxes and a complex system of cross-exemptions across taxes, depending on the type of activity and location. Simplifying the tax system would reduce compliance costs, which would help to raise more revenues and would particularly benefit SMEs and young firms, which tend to suffer more from complex tax structures (Dabla-Norris et al., 2017).

A tax reform was implemented in January 2018, containing several elements that are in line with recommendations in this paper. The reform will gradually reduce the turnover tax and the financial transaction tax. Progressivity will rise due to the taxation of capital income and a reduction in employer social security contributions for low skilled workers. The reform will also reduce corporate tax rates from 35% to 25% for reinvested profits. These changes will be phased in gradually over the next 5 years.

Reaping the benefits of international trade and global value chains

The economy shows ample room to become more integrated into the global economy. Exposure to trade has been persistently falling, with imports plus exports amounting to less than 30% of GDP (Figure 16). This reduces competition from abroad, adding to existing domestic barriers to competition. It also precludes the economy from reaping the benefits of trade for growth and job creation. Greater openness to trade can unleash productive potential by raising the scope for cross-borders knowledge diffusion and boosting competition (Andrews and Cingano, 2012). The participation in global value chains— activities where goods and services cross several borders along different value-added stages—has allowed lower-income countries to access world demand and advanced technologies without having to cover all production stages of a particular industry (Kummritz and Quast, 2016).

Figure 16. Exposure to trade is low

Source: OECD Economic Outlook 100 database.

Export performance has been worsening persistently since 2006 (Figure 17). This can be explained by previously existing export taxes up to 35%, increasing labour unit costs (Figure 18), with wages growing above productivity, high tax and administrative burdens, infrastructure shortcomings and severely limited access to finance (more below). Low participation in trade is also a result of high tariffs and other trade restrictions (Figure 19). Surges in import protection over the last decade have led to the emergence of entire industries, including toys and electronics, based on import substitution strategies. However, these have proven highly inefficient and none of them have been able to become internationally competitive. While this has created employment, it has come at a high price for consumers and taxpayers. These resources could be used more effectively to foster job creation in sectors where Argentina does not require protection to compete internationally. By contrast, other Latin American countries like Chile, Colombia, Mexico and Peru have actively promoted integration with large markets such as Japan, China and the United States through bilateral agreements.

Figure 17. Export performance has been weak

Note: Export performance is measured as actual growth in exports relative to the growth of the country's export market, which represents the potential export growth for a country assuming that its market shares remain unchanged.

Source: OECD Economic Outlook 100 database.

Figure 18. Unit labour costs have increased
2009=100

Source: IMF.

Argentina is poorly integrated into global value chains (Figure 20), but it is the world's largest exporter of soybean meal. Food and agriculture products account for half of exports (Table 3). Soybean derivatives (meal and oil), soybeans, and corn are the top exports. Motor vehicles account for 12% of exports. Machinery is the largest import item, accounting for 30% of all imports, followed by transportation goods (17%) and chemical products (16%). Brazil is Argentina's main trading partner, accounting for 18% of all exports and 21% of all imports (Figure 21). China and the European Union are also important trading partners. By contrast, Argentina trades relatively little with other Latin American countries, beyond Brazil. This may reflect a lack of bilateral agreements with other countries in the region and infrastructure weaknesses (more below).

Figure 19. Barriers to trade are high

1. The average of tariffs weighted by their corresponding trade value.

2. The numerical PMR indicators represent the stringency of regulatory policy in specific areas on a scale of 0 to 6 with a higher number indicating a policy stance that is deemed less conducive to competition.

3. Latin America includes: Brazil, Chile, Colombia, Mexico and Peru.

Source: World Bank World Integrated Trade Solution and OECD

Figure 20. Argentina is not well integrated into global value chains

Source: OECD-WTO Trade in Value Added database.

Table 3. Which goods does Argentina export? (2015)

Source: Observatory of Economic Complexity.

Figure 21. Brazil, China and the European Union are Argentina's main trading partners

Source: UNCTAD secretariat calculations, based on UN COMTRADE; IMF, Direction of Trade Statistics; UNCTAD, UNCTADstat Merchandise Trade Indices and Total Merchandise Trade.

Integrating Argentina stronger into global markets is a key priority. First steps into this direction have been taken recently. Foreign exchange controls and quantitative export restrictions on agricultural products were removed and export taxes were eliminated, with the exception of soybean and soy derivatives, for which they were reduced and are being phased out gradually. This is likely to improve Argentina's export performance, but much more remains to be done for exports to become an engine of growth. Boosting export performance would also open up opportunities for Argentinians to access better-paid jobs, since Argentinian exporters pay 31% higher wages than non-exporters (Bambrilla et al., 2016). Good recent export performances in services (Box 2) and in the wine sector (Artopoulos et al., 2013) illustrate Argentina's potential to tap successfully international markets.

Reducing tariffs

Reducing barriers to import can help to expand exports. For example, with expanded access modern technology embodied in foreign inputs, local companies can become more productive and competitive in export markets (Amiti and Konings, 2007, Johansson and Olaberria, 2014). Empirical evidence confirms that the availability of foreign intermediate goods, through input-tariff cuts, enhances firms' performance in export markets (Bas, 2012). Consumers also stand to gain from lower barriers to trade, as this would reduce the significant price gap in consumer items between Argentina and more open economies, including neighbouring Chile.

The authorities are planning to remove tariff barriers gradually. The current strategy has focused first on sectors with wide ramifications across the economy and comparatively low adjustment costs, such as the zeroing of a 12% tariff on imports of computer components and a 35% tariff on laptops and tablets in early 2017. For sectors with more employment at stake, including textiles and garments, the removal of barriers will be more gradual and has not started yet. The authorities have initiated an intense dialogue with several economic sectors to encourage them to prepare for a more open economy, and to identify further policy areas where reforms could support competitiveness. While the pace can be adapted to the circumstances in individual industries, it is important to establish and communicate a clear and credible time line for phasing out trade barriers. This encourages firms to upgrade their technologies and become more competitive before protection is removed. At the same time it is also important that in sectors providing key intermediate inputs to other parts of the economy, tariffs are removed promptly to avoid harming the competitiveness of sectors that can benefit from imported inputs.

Box 2. Service exports: a success story with good prospects

Service exports have outperformed goods exports in the past couple of decades. At USD 14 billion in 2015, services exports are around a fifth of the value of total exports, a relatively high proportion by Latin American standards; the corresponding share for Mexico, for example, is 5%. The services trade mix is fairly well-diversified from a sector perspective (Figure 22), with a relatively strong performance in knowledge intensive sectors, such as professional and information and communication technology (ICT) services.

Figure 22. Argentina's service export mix is well-diversified

Source: World Bank World Development Indicators database.

ICT services, which accounts for 11% of the total, have recently increased notably. With clusters in Buenos Aires, Rosario and Cordoba, the sector has benefited from promotion measures by provincial and central governments, with a special focus on key technological cities in the United States, where sales increased by 150 percent in the last decade (Cicomra, 2016).

Other services sectors showing robust exports performance are legal, accounting, management and consulting services, where Argentina has benefited from the increasing business processes outsourcing, and television, where Argentina has successfully created new television formats resulting in a significant increase in audio-visual service exports (Artopoulos et al., 2013).

Service exports have also successfully tapped into rising demand in fast-growing emerging markets, with the value of service exports to China rising from close to zero in 2000 to over USD 1 billion by 2015. Hence, looking ahead, both the structure of geographic markets to which Argentina exports its services, with an increasing weight on relatively fast-growing emerging countries, and the product structure, focused on relatively fast growing activities, such as knowledge intensive sectors, will have a positive impact on service exports performance.

It is important to acknowledge that opening up to trade, even gradually, will involve adjustment costs, as jobs will be lost in some sectors and created in others. Such reallocation enables capital and labour to move to more productive sectors where new firms will be created, or existing ones will expand, creating new jobs. But in the transition process, policies can go a long way to reduce the burden of adjustment for poor and vulnerable households. The design of such policies should put the emphasis on supporting workers rather than on protecting economic sectors or firms (Flanagan and Khor, 2012). Scaling up active labour market policies and providing training opportunities is a key policy lever in this context. Training can help workers to get ready for new jobs in expanding sectors, and even enhance their chances of accessing better paying jobs. Unemployment benefits or other social safety nets can also protect incomes during temporary unemployment spells.

Trade facilitation measures

Trade facilitation measures can also play an important role to stimulate trade, for example by reducing costs. Administrative burdens on exports and imports have been high in Argentina, who ranks below regional partners such as Brazil, Chile or Mexico in terms of efficiency of customs and border clearance, according to World Bank's Logistics Performance Index. Harmonizing procedures into a single electronic document and consolidating information and certifications from various authorities, such as customs or health and agriculture, can significantly increase efficiency in customs and reduce associated costs (Sarmiento et al., 2010).

To reduce administrative burdens, Argentina has established a one-stop mechanism (called *Ventana Unica de Comercio Exterior* - VUCE). A pilot exercise is initially covering wine and soy exports and it is expected that in five years' time the new one-stop shop will cover all export and import operations. Continuing to modernise and simplify customs procedures is fundamental, as cross-country evidence signals that it improves the capacity to export and import high-quality inputs (Moïse and Sorescu, 2013). It will also contribute to reduce the scope for corruption in the customs sector, especially if online procedures are introduced. Progress has also been achieved in terms of improving imports licencing, where automatic licencing has been established for many product lines. Nevertheless, non-automatic import licenses remain for around 1,300 tariff lines, amounting to 17% of import volumes. Reducing the scope of these non-automatic licenses would be a priority. Moving in that direction, Argentina has recently eliminated a number of non-automatic licences, including all those affecting electronics, including mobile phones. At the same time, internal taxes affecting domestic production of electronics in the province of *Tierra del Fuego* have been reduced to zero and will be gradually brought down to zero nationwide.

Engaging in mutual recognition agreements would be an additional measure that can facilitate trade. According to OECD's Product Market Indicators, there is room to pursue such agreements in areas such as construction, distribution, banking, insurance or hotels and administration. Likewise, requiring regulators to use internationally harmonised standards and certification procedures would also facilitate trade. Manufacturing, construction and professional services such as legal, engineering or architecture, are areas where harmonisation is currently lacking. A recent reform of administrative procedures represents progress in some relevant areas.

Trade policy can also contribute to boost export performance by providing wider market access and facilitate integration into global value chains. Argentina, as a member of the MERCOSUR customs union, has been less active than other countries in the region in getting access to new export markets. Given political developments in Brazil, new opportunities for MERCOSUR to seek more bilateral trade agreements are likely to come up. In particular, strengthening the links with the Pacific Alliance and moving forward on negotiations with the European Union are important initiatives in which Argentina should play a leading role. Lower trade barriers in advanced economies, particularly on agricultural imports, could provide a significant boost to Argentina's exports.

Attracting more and better foreign direct investment

Foreign direct investment (FDI) inflows are well below those observed in other Latin American countries, such as Mexico or Brazil (Figure 23). FDI can contribute to stronger productivity performance, for example, via technology transfer, through supply chains or through the diffusion of better management practices (Blalock and Gertler, 2009). The nature of FDI also matters. Given its fairly closed economy in the past, Argentina almost exclusively attracted market-seeking FDI as opposed to efficiency-seeking FDI, under which firms enter a country to benefit from factors that enable it to compete in international markets. The latter is often associated with stronger gains for productivity and employment (Barrientos, Gereffi and Rossi, 2011). Argentina has the potential to become a very attractive FDI destination, including for efficiency-seeking FDI. A convenient time zone with respect to US or Europe, which is convenient for

companies requiring real time communications with customers or headquarters, and good English language skills among tertiary graduates are strategic advantages not fully exploited so far.

Figure 23. Argentina attracts little direct investment

Source: CEPAL; and OECD FDI main aggregates database.

Attracting more and higher quality FDI requires adopting a comprehensive and coherent approach to investment climate reforms, including, addressing challenges related to infrastructure and human capital development, as proposed in this paper. Such an approach would help Argentina to benefit more from its already open regime to FDI (Thomsen and Mistura, 2017). Remaining restrictions to FDI are concentrated in only a few sectors, notably media, transport (international road transportation) and agriculture (rural land ownership restrictions), making Argentina a very open economy to FDI according to the OECD FDI Regulatory Restrictiveness Index (OECD, 2017f). Notwithstanding this, further FDI reforms could potentially contribute to create economy-wide productivity gains. Both transport and agriculture sectors are important for Argentina's participation in global value chains, and existing limitations to foreign participation and competition in these sectors may be preventing potential productivity growth opportunities.

Argentina has had a relatively large number of disputes with investors due to a lack of proper implementation of existing laws and legislations. This created reputational damage and hampered the attraction of foreign investment, which must now be reversed. Legislative changes since December 2015 sent a clear signal of the renewed impetus to attract FDI and reignited international business confidence. A new investment promotion agency has recently been set up and should play a key role in translating the regained business confidence into actual investment. These efforts should be complemented with a strong and decisive commitment to strengthen the rule of law, as this continues to be signalled by investors as an important impediment to do business, in particular as concerns the efficiency of the legal and judicial systems to settle disputes (Figure 24.A). Argentina ranks 129 out of 138 countries in terms of judicial independence, according to last edition of the World Economic Forum competitiveness indexes (WEF, 2017). Reorganising courts, implementing electronic judicial files and promoting out-of-court solutions to conflicts are avenues followed by OECD countries to enhance the efficiency of legal and judicial systems, which could also be pursued in Argentina.

Figure 24. There is room to improving the rule of law and reduce corruption

Note: Latin America includes: Brazil, Chile, Colombia, Mexico and Peru.

Source: World Economic Forum Global Competitiveness Index Dataset; and World economic forum.

Argentina is also perceived, both by national and international investors, as a country that faces significant corruption challenges (Figure 24.B). Improving trust in government institutions can contribute to attract direct investment as corrupt practices and weak institutions create barriers to invest and innovate and allow vested interests to capture political and administrative decision-making processes against the interest of the wider public. Argentina ranks among the last ten of 140 countries in favouritism of government officials, ethics and corruption, according to World Economic Forum data (WEF, 2017). The authorities have taken steps since 2016 to strengthen anti-corruption controls such as revamping the anti-corruption office, but a more systematic approach, including a risk-based integrity system, could lead to further progress.

Separating the preventive and investigative powers of the recently revamped anti-corruption agency would be a way to enhance its effectiveness. At the same time, the capacities and de facto independence of the bodies responsible for the investigation of corruption should be strengthened. Those efforts should be complemented with the introduction of an effective and stronger whistle-blower protection scheme, as most corruption cases are unveiled through whistle-blowers (OECD, 2016h).

Success in this area, however, will depend greatly on Argentina's ability to improve its enforcement of criminal anti-corruption laws against both corrupt officials and those who corrupt them. In this respect, the OECD Working Group on Bribery recently reiterated its concerns about the lack of corporate liability for corruption; under-resourced investigative judges and prosecutors; significant delays in investigations and prosecutions; and the lack of enforcement proactivity. In response, legal changes are underway. Argentina must now ensure that the Corporate Liability Bill that was introduced into Congress in 2016 addresses these as well as other major deficiencies and then promptly enact the Bill. Moreover, Argentina has adhered to the OECD Council Recommendation on Public Integrity in 2017 and a comprehensive integrity review has been initiated.

Boosting innovation

Innovation and investment in knowledge-based capital are important engines of growth and productivity. Based on standard innovation indicators, such as patents applications, Argentina's performance is relatively low, below regional peers such as Chile and OECD standards. This general weak performance contrasts with remarkable success cases. For example, Argentina is a top world performer in the aerospace sector, being at the vanguard in the satellite industry and in drone development. The agriculture sector is also at the innovation frontier in terms of farming techniques and use of biotechnology (World Bank, 2015), with INTA (*Instituto Nacional de Tecnología Agropecuaria*, National Agricultural Technology Institute) playing a key role in generating and promoting the diffusion of technologies. These examples are suggestive of high potential to become a top innovation performer.

Spending on research and innovation is relatively low, amounting to 0.61 % of GDP, which is about half of Brazil and one fourth of the OECD average of 2.4%. The gap is especially pronounced for business R&D (Figure 25), with Argentina spending 0.1% of GDP, versus 0.5% in Brazil or 1.2% in OECD on average. Acknowledging that innovation is a key pillar for the new economic model, the authorities aim at increasing R&D spending to 1.5 % of GDP, with a strong emphasis on raising business investment.

Figure 25. Business innovation is very low

Source: OECD Research and Development Statistics database; and Brazil Ministry of Science.

The lack of competitive pressure on product markets curtails incentives for engaging in innovation activities and to adopt new technologies and practices. Entry or the threat of entry has been found to stimulate innovation by incumbent firms (Aghion et al., 2005; Aghion and Bessonova, 2006). When the

incentive to get a competitive edge over others is missing because competitive pressures are low, firms do not consider innovation a priority. Moreover, where competition does not drive less efficient firms out of the market to free their resources, much of the public support for research and development may be absorbed in prices and wages rather than in the quantity of R&D (Acemoglu et al., 2013). Therefore, progress to strengthen domestic and foreign competition, as discussed above, would likely lead to more innovation.

There is also room to improve specific innovation policies. Besides easing the procedures for registering patents and trademarks, on which progress has been made through a recent administrative reform, a key tool to foster R&D innovation by firms is the R&D tax credit. This tax credit aims at alleviating difficulties by firms to fully appropriate the returns to their investment and to find external finance, in particular for small or young firms (Appelt et al., 2016). Argentina has an R&D tax credit based on a competitive allocation system with a budget of 0.002 % of GDP. The tax credit is applicable against tax obligations in the gross turnover tax. The R&D tax credit is therefore less favourable than in other jurisdictions, especially as concerns its role in facilitating the financing of innovation and supporting small or young firms. The competitive allocation system, together with the limited budget allocation, introduces a strong degree of uncertainty about the eventual availability of the credit, and thus does not significantly alleviate the difficulties that firms face to raise finance for innovation activities.

In addition, the design of the credit puts young innovative firms at a disadvantage. More innovative start-ups, focused on developing new products and technologies, usually have little sales initially, as the first commercialised forms of new innovations tend to fail (Agarwal and Bayus, 2002). Hence, the more innovative young firms are less likely to benefit from the tax credit under its current design. International evidence show that to support these type of firms, the tax credit should include provisions such as the possibility for tax credits to be converted into cash refunds or into reductions in social security and payroll taxes or include carry forward provisions (Appelt et al., 2016).

Moving into that direction would optimise the support given to young and innovative firms, although it would also reduce public revenues. A sound evaluation of the scheme may be a useful starting point for reform, as tax credits may unintendedly give an edge to incumbent companies to the detriment of start-ups (OECD, 2013b). In most OECD countries, the R&D tax credit is deductible from the corporate tax liabilities instead of from turnover tax liabilities. Hence, given the recommendation to phase the provincial turnover tax, Argentina could also make the R&D tax credit applicable against corporate income tax obligations.

Improving infrastructure to boost productivity and reduce regional disparities

Better infrastructure can contribute to higher productivity growth through various channels. First, it can boost the productivity of private inputs because of complementarities with labour and the private capital stock. The resulting higher productivity of the private capital stock would boost private investment (Agénor and Moreno-Dodson, 2006). Second, better infrastructure can boost growth in an inclusive way by making it easier for low-income people in remote and isolated areas to get access to jobs. Third, solving infrastructure bottlenecks, such as those in transport, can also reduce carbon emissions. Last, improving infrastructure would facilitate both internal and external trade and contribute to reduce existing regional economic disparities, with central provinces displaying significantly higher economic dynamism than Northern ones (Figure 26). Economic activity is concentrated around the province of Buenos Aires, which account for more than half of national GDP. Improving infrastructure would help second tier cities, such as Santa Fe, Cordoba or Mendoza, and also rural areas, by decreasing logistics costs for exports and by connecting them to new economic opportunities in more advanced regions.

Figure 26. Economic disparities across provinces are large
Number of enterprises per 1000 inhabitants

Source: OECD computations based on *Ministerio de Trabajo, Empleo y Seguridad Social* and INDEC's CENSO 2010.

Survey data on the perceived quality of infrastructure rank Argentina 109rd worldwide (World Bank, 2017). Infrastructure quality has been declining steadily over the past years. The quality of roads and railroads is below the Latin America average (Figure 27). The quality is slightly above Latin American standards in ports and air transport, but has declined substantially in both sectors. The quality of electricity supply is also very low, and below Latin American standards (Figure 27.D). Conversely Argentina ranks relatively well in terms of access to telephone connections, both fixed lines and mobile subscriptions. The decline in infrastructure quality can be attributed to low public investment, as other type of spending such as subsidies to energy and transportation, have been prioritised, and also to declining private investment (World Bank, 2017).

Figure 27. The quality of infrastructure is relatively low

Source: World economic forum, Global Competitiveness Indicator database.

Challenges in infrastructure also depend on territorial specifics. In addition to transport, needs in less-connected rural areas are also geared towards basic services such as electricity or water (OECD, 2016i). Meeting those needs would increase productivity, well-being and reduce territorial disparities. Taking account of the territorial dimension is also important to design sound public governance mechanisms that help to optimise the impact of infrastructure investment (OECD, 2013c). This is particularly important in Argentina, a highly decentralised country, where subnational governments are responsible for 66% of public investment. In particular, Argentina should adopt mechanisms to improve co-ordinating across national and sub-national levels of government. Co-ordination is necessary to identify investment opportunities and bottlenecks, to manage joint policy competencies and to ensure adequate resources and capacity to undertake investment (OECD, 2014b).

Improving rail transport will reduce logistic costs

The deteriorating quality of Argentinian infrastructure contributes to high logistic costs. For example, Argentinian firms pay USD 2943 on inland transportation costs to import a container, while Brazilian firms pay USD 1191 and Chileans pay USD 1500. Similar gaps exist in port and airport supply chains. Freight road transport is concentrated in the central areas, where traffic doubled between 2003 and 2014, creating important constraints despite same recent efforts to expand the capacity of some roads (World Bank, 2015). Transport costs are even higher in the Northern regions, where there is no alternative to road transport. This highlights that the transport mix is highly unbalanced. The proportion of rail in total freight transport is only 5% and road accounts for 93% of all freight transport. This compares with 25% of railroad transport in Brazil or 55% in countries with a similar production matrix.

Improving rail transport would offer the double dividend of reducing road congestion in the central area and of decreasing export costs for firms located in the northern region, enabling them to access domestic and export markets. It would also help to boost trade with other Latin America countries. Improving rail transport will require rehabilitating deteriorated infrastructure and developing and implementing a sound regulatory framework. Improvements in rail transport would be more effective in curbing logistic costs if they are undertaken within a multi-modal vision of transport infrastructure, which so far has been lacking. For example, there is a need to improve freight terminals in airports and rail and road access to ports (World Bank, 2015). That would help to improve Argentinian's ports efficiency, which is low in comparison with other ports (Morales Sarriera et al., 2013). In particular, the port of Buenos Aires displays larger container ship turnaround times and higher costs than other container ports in the region (Merk, 2017).

To respond to infrastructure challenges, public investment in infrastructure projects, both at the federal and provincial levels, will be boosted in the second half of 2017, following a review of all ongoing projects. This is welcome, as public investment in infrastructure boosts demand in the short-run and can also crowd-in private investment (OECD, 2016a), supporting the ongoing recovery. However, the fiscal room for further expansions of public spending on infrastructure is limited. Therefore there is a need to optimise public investment and to improve the institutional and legal framework for private sector participation in infrastructure projects. Progress have been achieved in the electricity sector, where the government aims at doubling the supply in the next decade and at covering 25% of energy needs with renewable sources. To that end, two public auctions have been completed and attracted significant interest, partly due to very high returns offered. Progress is also ongoing to open up the air transport sector, which has so far remained underdeveloped in comparison with neighbouring countries such as Chile, Brazil, Ecuador or Bolivia. Removing existing minimum pricing rules for air tickets would be key to foster competition in the sector and allow business and individuals to benefit from lower prices.

To attract private participation in financing and execution of infrastructure projects, both concessions, with which Argentina has experience, and public-private partners (PPP), for which a new framework law

has been passed recently, can be useful models. In the case of PPPs, projects should be chosen when they represent good value for money. The literature and international experience suggest a number of factors that can ensure that a PPP is the right delivery model and maximises value for money. These include specifying contracts in terms of outputs instead of inputs to maximise benefits of private sector technical expertise and management skills; an ex ante evaluation of PPP versus public-sector comparators to identify the best way of contracting projects; and proper fiscal accounting of PPPs, including recording them as contingent liabilities in the budget (OECD, 2012a). The latter is particularly important to avoid the build-up of off-balance liabilities, which may end up jeopardising public finances, as experienced in several OECD countries. In that sense, it is crucial that the assessment and accounting of the budgetary implications of PPPs is timely and transparent and covers their whole life-cycle.

In line with international best practices, Argentina is setting up a technical unit of around 20 experts in the office of the Cabinet of Ministers to advise on PPP projects. The unit will also be in charge of elaborating a report explaining the rationale for choosing the PPP model over other financing alternatives, including an economic and environmental impact assessment. This is welcome, since a lack of specialised expertise has been internationally signalled as a key constraint to get the most out of the PPP model. Similar units exist in some OECD countries and its location in the office of the Cabinet of Ministers may help to spread knowledge and advice through all ministers in a coordinated way.

A major weakness of PPP programs implemented in the Latin America region concerns renegotiations, whose high incidence (Bitran et al., 2013) tends to erode significantly the expected benefits of the programmes. Experience of Latin American countries, such as Chile, Colombia and Peru, offers key principles to address renegotiations. Thus, the financial equation of the winning offer should always be the reference point. If the contract is to be modified, the outcome should have a zero impact on the net present value of the benefits, and the contract modifications should not change the original risk allocation matrix. Additionally, the PPP operator should be held responsible for its offer and for the risks accepted in the contract. Renegotiation must not be used to correct errors in the bid or excessively risky or aggressive bids (Guash et al., 2014). Obtaining planning and environmental permissions in advance of tender is a key to avoid renegotiations and delays.

Developing access to finance

Access to finance is very difficult. The financial system is small, mostly transactional and has shrunk relative to its size in 2000 (Figure 28.A and 28.B). Both bank credit to the private sector and stock market capitalisation (Figure 1.28, Panel C) are well below levels of OECD and other Latin American countries. SMEs are particularly hard struck and rely mostly on retained earnings. The mortgage market was largely undeveloped until 2017 and there are no institutional investors such as mutual funds, pension funds or insurance companies. This implies that long-term finance is almost non-existent, constraining investment and growth. Moreover, the lack of financial instruments implies that there is little room to smooth consumption and investment, which exacerbates macroeconomic volatility. While some studies have highlighted that there may be too much finance from a certain point of financial development onward (Cournede and Denk, 2015), Argentina is certainly far below that point. Better financial development would boost growth by providing more domestic financing to investment projects and would also strengthen the monetary transmission channel, thus making monetary policy more effective in taming inflation. Financial development also enhances trade, particularly in goods whose production is highly dependent on external finance (Johansson and Olaberría, 2014). Last, including a greater share of the population into the financial system would improve well-being by providing better opportunities for consumption smoothing.

Figure 28. Financial markets are hardly developed

Source: Bank of International Settlements; and World Bank Financial Development and Structure Dataset.

A precondition for deeper financial markets is continuous macroeconomic stability. Previous economic crisis resulted in freezes on bank deposits and, in the high inflation environment of the last years, real returns on private savings have consistently been negative. This has changed by now, but building up the necessary confidence for savers to venture into longer maturity instruments, which would enable banks

to lend more long-term, will probably take time. The additional resources flowing into the domestic financial system as a result of a recent tax amnesty, which led to the declaration of almost 20% of GDP in previously undeclared assets held by residents, are also likely to support the expansion of the financial sector. A recent initiative by the Central Bank to create an inflation-indexed accounting unit for credit contracts, which was mostly designed for establishing a mortgage market, can be a useful tool in the transition, until rising confidence has made indexed instruments obsolete. With this accounting unit, the real value of credit instalments is kept constant, as has effectively been the case with most rents. This preserves the real values of the instalments paid towards the end of the credit period and therefore allows up to 3 times lower initial instalments. As a result, a wider range of households can afford to access mortgage loans. At the same time, however, indexed loans increase financial risk as they transfer risks to borrowers. The Central Bank, who is in charge of financial stability, should stand ready to use macro prudential tools, including limits on debt-service to income ratios, to ensure high asset quality as credit grows. Another initiative to develop the local mortgage market has been to use part of the public sector reserve fund endowment to create a trust which would securitise mortgages originated in banks.

In the past, high inflation and negative real rates on deposits have guaranteed almost automatic returns to banks. As this has changed, banks will have to adapt their business models. Pressures to improve cost-efficiency, including through consolidation, are likely to become stronger. There appears to be significant room for cutting costs through simplifying administrative procedures and adopting digital technologies. The level of administrative expenses of banks is high and increasing, both in private and public institutions. They account for 7.7% of total assets (IEF, 2016), while they are in the 2-3% range for banks in other countries in the region such as Chile or Colombia. A recent expansion of deposit insurance will make it easier for banks to attract deposit in order to finance lending.

Beyond banks, steps have been taken to enhance the prospects for corporate bond and equity financing. In particular, a draft proposal to modify the Capital Markets Law (*ley del Mercado de capitales*) was sent to Congress in 2017, with a view towards modernising the regulatory framework. Improved corporate governance is one aspect of the draft law, as it intends to limit arbitrary interference of the securities regulator in operational decisions of publicly traded companies. Conversely, the securities regulator will get power to initiate administrative procedures in the case of anti-competitive behaviour. A more developed stock market would also be able to enhance financing options and boost growth (Lanteri, 2013). Plans to create a unified stock exchange are likely to increase liquidity, lower transactions costs, facilitating both domestic and foreign investment in Argentinian equities.

Facilitating the transition from cash payments into bank or electronic payments would also foster financial development and also help to reduce informality (Rogoff, 2016). Policy options include banning cash for transactions above a certain threshold, as done recently by France, Spain and Italy, or taxing cash transactions as opposed to transactions through banks or electronic platforms. South Korea illustrates the potential of using the tax system with that purpose, as it introduced a tax incentive for electronically traceable payments, which succeeded in reducing cash transactions, increased financial inclusion and tax revenues and reduced income inequality (Sung et al., 2017).

There is also a large potential to increase financial development by extending banking services to a greater share of the population. Positive steps have recently been being taken in that direction, such as the simplification of procedures for opening bank accounts and increasing the information on fees. Mobile banking systems also present unused opportunities in this context, as Argentina lags behinds neighbouring countries such as Colombia or Uruguay in this area, although most of the population, including those in low to medium income brackets, own a mobile phone (Tuesta et al., 2015). Some regulatory hurdles have recently been removed as the Central Bank approved a regulation allowing all banks to open mobile bank branches.

Providing better skills will boost productivity and employment

Improving educational achievements is likely to support productivity, investment and job creation. Better skills are crucial for individuals to access quality jobs and for the economy to compete in an increasingly knowledge-based world (OECD, 2012b). The share of the labour force with tertiary education in Argentina is larger than in Brazil or Chile, but a sizeable gap remains with respect to the OECD average (Figure 29.A). Moreover, tertiary attainment is currently falling across generations (OECD, 2017g). The graduation rate in secondary education is low (Figure 29.B) and there is also a large room to improve its quality, as reflected in PISA rankings (OECD, 2017g). This indicates that many Argentinians are currently leaving the education system with relatively low levels of skills.

Figure 29. Skill gaps are significant

1. This includes all the tertiary graduates in the fields of Engineering, Manufacturing, Construction, Natural Sciences, Mathematics and Statistics.

Source: World Bank World Development Indicators database; OECD Education at a Glance database; and UNESCO Education database.

Vocational education and training (VET) remains underutilised, below levels observed in OECD countries and in Chile or Mexico (Figure 29.C). At the same time, survey results suggest that employers are finding it particularly hard to find technicians, skilled trades and engineers (INET, 2016). Thus, expanding and enhancing the effectiveness of VET can be particularly useful to address these skill mismatches and to raise workers employability. In addition, offering VET as a less academic path in

secondary education can reduce the high-dropout rates in secondary education (OECD, 2017g). International experience suggests that workplace training and involving employers in the design and delivery of the training are key elements for a successful development of VET. Currently training institutions are the dominant players of the VET system. Giving employers a more central role, both in the design of courses and in the delivery of workplace training, would bring the VET system closer to international standards.

As in many OECD countries, there is also scope for a better alignment of university curriculums to the type of occupations prevailing on the labour market (OECD, 2017a). Digitalisation, globalisation, demographic shifts and other changes in work organisation are constantly reshaping skill needs, creating challenges for the education system, in particular universities, to update curriculums regularly (OECD, 2016j). The tertiary education system produces relatively few graduates in science, technology, engineering and mathematics. Sciences and Engineering account for 10% of graduates, below levels observed in other countries (Figure 29.D). At the same time, the system is biased towards social sciences and humanities.

Increasing flexibility and ability to equip tertiary students with job-relevant skills are thus vital and recommended. For that, curricula should be updated regularly, intelligence about future skills needs should be developed and fields with high expected demand, such as engineering, should be promoted. Funding mechanisms can play an important role in this respect, and it is recommended that the funding formula takes into account labour market outcomes and needs. On the demand side, it should be facilitated that students obtain early on in their student life comprehensive information about employment options in the country, as well as wage levels in different industries and about labour market status by degree and university. This would encourage more students to enrol in those institutions offering better employment and earning prospects.

Recommendations to boost growth and living standards in Argentina

Key recommendations

Product markets

- Continue to simplify administrative procedures and licensing requirements to start an activity. Implement a one-stop-shop approach to business regulation.
- Ensure that the competition authority has autonomy and adequate resources.

Labour market

- Protect workers with unemployment insurance and training rather than strict labour regulations. Introduce out-of-court procedures for labour disputes.

Trade

- Lower import tariffs and further reduce the application of non-automatic import licenses.
- Expand labour market support for affected workers.

Taxes

- Continue efforts to phase out the provincial turnover tax and financial transaction tax.

Skills

- Develop the VET system by increasing the involvement of employers and workplace education.
- Better align tertiary curriculums with jobs.

Rule of law and corruption

- Strengthen the capacities and independence of bodies investigating corruption.
- Reorganise and strengthen courts and enact the corporate liability bill to prosecute bribery.

Other recommendations

Product markets

- Introduce an explicit program to eliminate regulations fragmenting the domestic market.
- Apply the OECD's Competition Assessment toolkit to refine laws and regulations and submit new laws likely to affect competition to a regulatory impact assessment.
- Improve the governance of state-owned enterprises by adopting the OECD Guidelines on Corporate Governance of State-owned enterprises.

Infrastructure

- Improve the regulatory framework for rail transport and rehabilitate deteriorated infrastructure.
- Assess the full implications for the budget position of PPPs over their whole life-cycle and fully record arising contingent liabilities in the budget.

Entrepreneurship

- Evaluate the effects of the entrepreneurship and SMEs laws on firm creation and on improving access to finance by young and innovative firms.
- Promote gender diversity in leadership positions by using gender quotas or targets and information campaigns.

Innovation

- Consider making tax credits for research and development refundable or introducing more generous loss carry-forward provisions.

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ANNEX. SIMULATING THE IMPACT OF STRUCTURAL REFORMS ON GROWTH

This quantification of structural reforms is based on the OECD's *Going for Growth* framework of policy indicators and empirical estimates of the relationship between policy and economic outcomes.

The quantification is based on three inputs:

1. A numerical indicator for Argentina of the *policy stance* in each area. Namely:
 - a. Product markets reforms: the indicator used is the Product Market Regulations (PMR) Index, in particular the sub-indexes related to “Barriers to Entrepreneurship”, “Governance of States Owned enterprises” and “Use of command & control regulation”.
 - b. Trade reforms: the sub-indexes “Tariff barriers” and “Barriers to Trade facilitation” of the PMR index are considered.
 - c. Labour market reforms: two indicators are considered: i) OECD's Employment Protection Legislation (EPL) index; ii) Excess coverage of wage bargaining, computed as described in Gal and Theising (2015).
 - d. Tax reforms: the share of corporate and property tax revenues in total revenue.
 - e. R&D: the spending by the business sector on R&D.
2. A *policy shock* to the indicator reflecting reforms. Two shocks are considered: i) the one resulting from moving from Argentina's settings to the OECD average one; ii) the one resulting from closing the gap with selected peer Latin American countries, namely Chile, Colombia and México.
3. An estimate of the impact of changes in the indicator on output growth after 10 years. This is based on the extensive cross-country research programme developed over many years at the OECD to understand the relationships between policy stances and economic outcomes.

Effects of product market reform reforms

Product market reforms impact long-term growth via multi-factor productivity (MFP). The framework used is based on Bourlès *et al.* (2010), column (4), Table 1.

Effects of labour market reforms

Labour market reforms are assumed to impact long-term growth via employment (EPL and excess coverages reform) and investment (EPL reform). The framework used is Égert and Gal (2017). The quantification is based on estimated cross-country effects as reported in Table A6.3.

Effects of tax reforms

Tax reforms impact long-term growth via multi-factor productivity (MFP). The framework used is Arnold *et al.* (2011). The quantification is based on estimated cross-country effects of the tax mix on long-run GDP per capita as reported in table 1. The scenario of convergence towards the OECD average assumes that the share of corporate income taxes in the tax mix falls, and that revenue neutrality is achieved by

adjusting property and consumption taxes. For the scenario of convergence towards Latin America average, it is assumed an increase in property taxes also implemented in a revenue neutral manner.

Effects of R&D policies

Labour market reforms impact long-term growth via multi-factor productivity (MFP). The framework used is Égert and Gal (2017). The quantification is based on estimated cross-country effects as reported in Table A6.3.

Estimates in Bourlès *et al.* (2010), Égert and Gal (2017) and Arnold et al. (2011) are based on within estimates, as country fixed effects take out the cross-country variation in the data. This implies that the estimates reflect relationships based on the average variations over time. Setting-up best practice scenarios, as those presented in this paper, imply using larger variations in the data.