

In 1991, the government signed an agreement with automotive manufacturers, dealers, parts manufacturers, and unions whereby car prices were lowered 30-35% between January and March. The government reduced taxes by 9%, and between 1991 and 1992, production increased by 85%. Another key issue of the agreement was the integration with Brazil and the consequent increase in exports.

As of August 2, 1994, the *Agreement for the Consolidation of Reconversion, Employment, Productivity and Growth* of the automotive industry has been extended until the end of 1999. Highlights of the agreement include the cooperation of assembly plants and suppliers to further reduce prices by 5-10% in the immediate future, so as to improve international competitive levels. It has been recognized that in order to achieve this international competitiveness, price and quality need to improve. This implies substantial changes in the use of modern industrial management techniques, and cost mechanisms. Assembly plants are committed to exceed their 1993 investment of US\$ 350 million. Investment in the coming years should total US\$ 2 billion, while companies seek to increase their exports. Production for the current year is estimated at 400,000 units, while exports are expected to reach the US\$ 1.2 billion target.

The national supply requirement has decreased significantly, from 80% to 60% between 1985 and 1990, a sign that the industry was over-protected. Automotive parts firms must also maintain a 60% level of local content.

The new direction taken by the government integrates Argentina to a general globalization process seen in the automotive industry worldwide, which stresses liberal trade policies and increased competitiveness of the domestic automobile industry. In order to achieve this, imports of auto parts are allowed in larger quantities, as national supply requirements are reduced.

This is expected to foster exports of Argentine products at competitive prices and to attract foreign investors into the Argentine market to take advantage of these new conditions. These events create a very favourable scenario for the development of the automotive parts industry in Argentina. The export orientation of the automotive industry as a whole, and that of automotive parts in particular, will certainly bring about a persistent growth both in production and imports.

### **3. ECONOMIC ENVIRONMENT**

#### **Economic Outlook**

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During the 1980s, Argentina went through a series of economic crises and on two occasions, inflation accelerated into hyperinflation. With the objective of reducing the inflation rate, the government implemented a stabilization program known as the *Convertibility Plan*. Since its implementation in April 1991, it has succeeded in reversing the economic downturn which