

<b>Institution:</b> University of Surrey		
<b>Unit of Assessment:</b> 17 Business and Management Studies		
<b>Title of case study:</b> Reducing import tariffs to cut costs for industry in Argentina and across MERCOSUR		
<b>Period when the underpinning research was undertaken:</b> 2013 to 2019		
<b>Details of staff conducting the underpinning research from the submitting unit:</b>		
<b>Name(s):</b>	<b>Role(s) (e.g. job title):</b>	<b>Period(s) employed by submitting HEI:</b>
Juan Carluccio	Reader in International Trade	2013 – 2017: 0.25 FTE 2018 – present: 0.35 FTE
<b>Period when the claimed impact occurred:</b> 2018 - 2020		
<b>Is this case study continued from a case study submitted in 2014?</b> N		
<b>1. Summary of the impact</b> (indicative maximum 100 words) <p>Import tariffs in Argentina are amongst the highest in the world. Barely changed since 1995, they have prevented the country benefitting from globalisation. Building on insights and methods from his research, Dr Juan Carluccio developed a proposal for import-tariff reform that impacted policy-making in Argentina through three channels: 1) negotiations to revise the Common External Tariff (CET) of MERCOSUR, a trading bloc composed of Argentina, Brazil, Paraguay and Uruguay, resulting in savings of £100m per year for firms, 2) unilateral tariff reductions producing savings of over £50m per year, and 3) negotiations of trade agreements between the EU and MERCOSUR leading to one of the world's biggest free trade areas. These key components of the country's "intelligent integration" strategy impacted all firms, consumers and workers in Argentina and MERCOSUR.</p>		
<b>2. Underpinning research</b> (indicative maximum 500 words) <p>Since 2013, Carluccio's research at the University of Surrey has focused on understanding how imports affect firms, workers and consumers. His research offers new theoretical insights and novel empirical measures utilising large datasets of imports, exports, firm production and wages.</p> <p>Throughout the rest of the narrative, the terms "inputs" and "intermediate goods" will be used interchangeably to denote goods used in the production process of other goods, as opposed to final consumption. As an example, steel and iron are intermediate goods for the production of cars, with cars being final consumption products.</p> <p>Reducing trade barriers makes imported goods cheaper, benefitting both firms and consumers.</p> <p><b>Intermediate goods imports increase firm productivity, wages, and demand for skilled workers</b></p> <p>Carluccio analysed firms' decisions to import intermediate goods and their impacts on productivity and employment. Firms react to reductions in trade barriers by moving the most unskilled intensive parts of the production process (e.g., assembly lines) to low-wage countries, and concentrate their activities on tasks undertaken by skilled workers, such as marketing and product design. Consequently, productivity of importing firms increases, and their employment becomes more biased towards skilled workers. A key insight of the research is that the impact of tariff reductions is felt primarily by the largest firms because only larger firms can afford offshoring costs, such as searching for suppliers in foreign countries <b>[3.1]</b>. Carluccio's work includes original empirical</p>		

measures of the importance of unskilled labour in the production of imported products (“labour-intensity”).

Offshoring affects wages. Carluccio’s work showed that increases in firms’ imports of intermediate goods are associated with higher average wages, consistent with the theoretical idea that offshoring raises firm productivity. However, productivity and wage gains accrue solely to skilled workers, such as technicians and executives, and have nil effects on blue-collar workers who are more easily substituted for foreign labour [3.2].

Carluccio studied the wage consequences of the integration of emerging economies (such as China) into global value chains, which manifest themselves as imports of intermediate goods into high- and middle-income economies. The research showed that such integration increases wages of emerging-economy workers while generating wage inequalities in importing developed economies, raising skilled workers’ wages, but decreasing those of unskilled workers, in line with evidence discussed above [3.2 and 3.3].

Furthermore, institutions in a host country affect offshoring strategies. Carluccio shows, both theoretically and empirically, that when firms import from countries where worker bargaining power is strong, they prefer to subcontract to independent suppliers (“outsourcing”) instead of building their own factories, with consequences for wages and productivity [3.4].

#### **Imports of consumer goods reduces the cost of living for local consumers**

Reduction in consumer prices are the other side of the globalisation ‘coin’. Carluccio provided one of the first quantifications of the impact of imports on consumer prices, developing an original methodology and applying it to detailed data on imports by product and country of origin [3.5].

#### **Research on economic policy-making in Argentina**

As well as analysing the European experience, Carluccio studied trade policies in Argentina and discussed the effect of the strongly protectionist measures undertaken during 2011-2015 on the performance of the economy [3.6].

### **3. References to the research** (indicative maximum of six references)

- 3.1 Carluccio, J., Cunat, A., Fadinger, H. and Fons-Rosen, C. (2019) “Offshoring and Skill Upgrading in French Manufacturing”, *Journal of International Economics*, 118, 138-159. DOI: [10.1016/j.jinteco.2019.01.001](https://doi.org/10.1016/j.jinteco.2019.01.001)
- 3.2 Carluccio, J., Fougère, D. and Gautier, E. (2015) “Trade, Wages, and Collective Bargaining: Evidence from France”, *The Economic Journal*, 125, 803-837. DOI: [10.1111/eoj.12262](https://doi.org/10.1111/eoj.12262)
- 3.3 Carluccio, J., Ekeland, I. and Guesnerie, R. (2017) “Fragmentation and Wage Inequality: Insights from a Simple Model”, with, *Annals of Economics and Statistics*, Special issue in Honor of E. Malinvaud, Nr 125 / 126, 113-134. DOI: [10.15609/annaeconstat2009.125-126.0113](https://doi.org/10.15609/annaeconstat2009.125-126.0113)
- 3.4 Carluccio, J. and Bas, M. (2015) “The Impact of Worker Bargaining Power on the Organization of Global Firms”, with Maria Bas, *Journal of International Economics*, 96(1), 162-181. DOI: [10.1016/j.jinteco.2014.12.008](https://doi.org/10.1016/j.jinteco.2014.12.008)
- 3.5 Carluccio, J., Gautier, E. and Guilloux-Nefussi, S. (2018) “[Dissecting the Impact of Imports from Low-Wage Countries on French Consumer Prices](#)”, *Banque de France Working Paper* (Reviewed by external and internal peers).
- 3.6 Carluccio, J. and Ramos-Tallada, J. (2016) “[L’Argentine après le défaut : conditions d’accès aux marchés internationaux de capitaux et choix de politiques économiques « non conventionnelles »](#)”, *Revue d’économie financière*, 2016, 124.

### **4. Details of the impact** (indicative maximum 750 words)

Achieving “intelligent insertion into the world” was a key objective of Argentina’s government during Mauricio Macri’s Presidency (December 2015 – December 2019) [5.1a], which took office after over a decade of economic isolation [3.6]. At the heart of this objective was import-tariff reform to allow local firms’ participation in global value chains and to reap the opportunities provided by globalized production [5.1b].

Carluccio worked in Argentina from April 2018 to April 2019 as Director of Research with the National Foreign Trade Commission - *Comision Nacional de Comercio Exterior*, (CNCE), alongside local economists, transferring knowledge and capabilities gathered during his extensive experience as an academic. His research conducted at the University of Surrey was decisive in the decision by the Ministry of Production and Labour of Argentina to appoint him [5.2a] and charge him with developing a proposal for a thorough reform of import tariffs. The President of the CNCE stated “*I proposed the authorities that Juan Carluccio join our research unit under the belief that the state-of-the art ideas developed in his academic works would materialize in sound applied research with strong impact in the decision-making process*” [5.3].

Argentina is part of MERCOSUR, a trading bloc where Common External Tariffs (CET) apply to goods imported from third countries. MERCOSUR tariffs had remained unchanged since 1995 and were amongst the world’s highest [5.4]. Reforming the CET required consensus by all members. Individual countries are allowed to unilaterally change tariffs of a limited set of products (100 in the case of Argentina) via the ‘Lists of Exceptions to the CET’.

The decision process for tariff changes in the Ministry for Production and Labour of Argentina is composed of three steps. In a first step, technical teams within the International Trade Secretariat provide recommendations based on economic and data analysis. These proposals are then presented to high-rank officials, and eventually to the Secretary and Minister who make the final decisions [5.3]. In the case of unilateral decisions, the process requires a Decree implementing the changes. In the case of MERCOSUR’s common tariffs, Argentine representatives propose changes to the bloc’s members and, if consensus is reached, changes are made effective through MERCOSUR Resolutions.

### **Establishing the foundations for tariff reforms**

Carluccio first developed a study of the tariff structure of Argentina and MERCOSUR, drawing on his research [3.1-3.6]. The study, consolidated in an official government White Paper [5.4], contains a general diagnosis and priorities to guide reform. Products were grouped according to their position in the value chain, following concepts and data-analysis methods developed by Carluccio [3.1, 3.2, 3.5]. Tariffs were compared to international standards, and the implications of the tariffs for productivity and competitiveness were explained. High tariffs for intermediate goods are highlighted as particularly harmful because these goods represent a large share of production costs [3.1].

The diagnosis highlighted the abnormally high levels of tariffs in Argentina (four times higher than international averages), and identified high tariffs applied to intermediate goods as the key deficiency of the tariff structure. Importantly, the White Paper [5.4], stresses that high input tariffs hinder the expected beneficial effects of free-trade agreements, thus emphasising the need for a coherent approach to trade openness [3.1, 3.2, 3.5].

The diagnosis and policy recommendations from Carluccio’s White Paper garnered consensus amongst senior officers following presentations to the Minister of Production and Labour and various State Secretaries, Under-secretaries and mid-rank officials with policy-making influence. The Trade Under-secretary stated: “*The messages of this research gathered consensus among senior policy-makers and were influential in highlighting the need to modernise the structure of tariff protection in MERCOSUR, as well as the priorities that should guide the reforms*” [5.5]. The Economic Policy Secretary stated in March 2019 that Carluccio’s work “*is currently gaining consensus within our administration, evidenced by the fact that he presented his recommendations to me on behalf of the Secretary of International Trade in my capacity of Secretary of Economic Policy*” [5.6].

**Impact on tariff change decisions by Argentina's and MERCOSUR's authorities**

Impacting policy-making in Argentina through three channels:

**1. Revision of MERCOSUR's Common External Tariff (CET).**

Senior officers' consensus around the diagnoses and recommendations resulted in Carluccio being tasked with elaborating a detailed tariff-reform proposal for around 10,000 products in the MERCOSUR product classification (NCM), by directing a team of specialists in different sectors of the economy. This work impacted the decision-making process in two instances. In late 2018, it led to the decision by MERCOSUR to reduce tariffs for 49 inputs used in the chemicals sector [5.1d, 5.8b]. The average tariff for these goods was reduced from 10% to 2%, implying estimated yearly savings of over £100m in tariff costs for firms in the industry [5.11a]. In early 2019 a cross-country expert group with Member States representatives was instructed to study and revise the CET under the conviction that it is "*fundamental for the consolidation of the Customs Union*" and that the tariff structure has to "*promote competitiveness and productivity in the region*" [5.1c], [5.7a, 5.7b, 5.7c, 5.7d, 5.8a]. The proposals from Carluccio and his team represented the position of Argentina in the negotiations. The International Trade Secretary stated it "*serves as the basis of our country's position in talks with MERCOSUR partners, guides senior officials in the process of negotiating in our country's best interest, and provides a lens for the study of our partners' positions in the talks*" [5.9].

**2. Unilateral tariff reductions**

The research influenced the programme of unilateral tariff reductions. The officer in charge, Under-secretary for Trade Facilitation, stated: "*I have devoted strong efforts to the optimization of the exception lists. This work requires to be grounded in a general strategy to ensure that the decisions maximize the potential impact of tariffs on the economy*" and that Carluccio's work was "*very valuable, as it has helped organizing priorities, optimizing our strategy and communicating the decisions convincingly to both the authorities in the Ministry and representatives of the private sector*" [5.10]. The implementation of the strategy resulted in concrete measures, notably the reduction of tariffs for 10 key intermediate goods widely used in the textile, apparel, steel, paintings and bicycle sectors [5.1e], [5.7e]. Tariffs were reduced from an average of 19% to an average of 5%, generating estimated yearly savings of over £53m for firms in highly employment-intensive sectors [5.11b]. This was achieved with no damage to local workers because goods were selected for having nil or little local production, as research had shown that trade liberalisation can hurt employment and wages of the less-skilled [3.1, 3.2, 3.3].

**3. Negotiations of trade agreements with external countries and trading blocs**

Carluccio's work influenced Argentina's position in negotiations between MERCOSUR and other trading blocs, notably the EU-MERCOSUR free-trade deal, for which an agreement in principle was signed in June 2019 after 20 years of negotiations, paving the way for the creation of the world's biggest free trade area [5.1f] (an agreement 'in substance' with the European Free Trade Area (EFTA) was reached in August 2019 and negotiations with Canada are underway). The Economic Policy Secretary (and former Secretary of Commerce) affirmed that Carluccio's research provided theoretical and empirical evidence that guided the negotiations: "*The research highlighted that a reform of the tariff structure was essential to succeed in our main objective of achieving the "intelligent" integration of the Argentine economy into the world, a pillar of which is the signing of free trade agreements*" [5.6], and the International Trade Undersecretary noted that "*the research informed the process of trade agreement negotiations, on the one hand, by highlighting the kind of tariffs reforms necessary to achieve successful integration via free trade agreements and, on the other, by providing guidelines for the determination of our country's offers in the negotiations.*" [5.5].

The overall nature of the impact is summarised by the Economic Policy Secretary, who stated that Carluccio's work in Argentina allowed him to "*bridge between the theoretical ideas, concepts and empirical methods developed in his academic research and the particular cases of our country and MERCOSUR, enhancing our policy-making <...> and shaping the direction of fundamental reforms*" [5.6].

**5. Sources to corroborate the impact** (indicative maximum of 10 references)

**5.1** Official statements by Argentine and Brazil governments, and MERCOSUR authorities (PDF)

**5.2** Official appointment as Director of Research and letter of invitation (Confidential) (PDF)

**5.3** Factual statement from the Undersecretary of International Insertion (former President of the International Trade Commission during Dr. Carluccio's appointment period) (Confidential) (PDF)

**5.4** Carluccio, J. Hallak, J. and Rusconi, L. (2018) "El Arancel Externo Común del MERCOSUR: Diagnostico y Consecuencias Principales", *Documento de Trabajo de la Comisión Nacional de Comercio Exterior, Ministerio de Producción de Argentina*. (PDF)

**5.5** Factual statement from the Undersecretary of International Trade (Confidential) (PDF)

**5.6** Factual statement from the Secretary of Economic Policy (former Secretary of Commerce during part of Dr. Carluccio's appointment period) (Confidential) (PDF)

**5.7** Review of press coverage of government statements, measures undertaken and impacts (PDF)

**5.8** Legislation: Decrees from Argentina national government and MERCOSUR official Resolutions (PDF)

**5.9** Factual statement from the International Trade Secretary (Confidential) (PDF)

**5.10** Factual statement from the Undersecretary of Trade Facilitation (Confidential) (PDF)

**5.11** Quantitative evidence on tariff costs savings built with official, publicly available data (PDF)