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MILEI'S GOVERNMENT ANTI-INDUSTRIAL POLICY: IMPLICATIONS OF THE INCENTIVES SCHEME FOR LARGE INVESTMENTS (RIGI) IN THE 'LEY BASES' BILL

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Introduction

The rise of the exchange rate on December 2023 (+118%) and the increase in the 'Impuesto PAIS' tax aliquot part from 7.5% to 17.5% had a profoundly negative impact on Argentina's manufacturing industry. Several industrial sectors have experienced a double-digit decrease during the last three or four months. The adverse macroeconomic conditions are not the only reason for this. Javier Milei's government has decided to abandon every industrial promotion policy once supported by the Argentinian state. In just a few months, the DNU (acronym for Emergency Decree) 70/2023 and the set of implemented policies in production and in foreign and domestic trade have dismantled mechanisms for protecting and incentivizing the national industry. The most problematic aspect, which would imply -if approved- a profound change in the country's productive matrix, is the Incentives Scheme for Large Investments (RIGI in Spanish). It is part of the 'Ley Bases' bill which obtained preliminary approval in the Congress on April 30th.

This report has three sections. Firstly, there is an initial characterization of the industrial policies implemented by Javier Milei's administration during the Government's first few months. Secondly, the contrast with other worldwide economies is developed. Industrial policies which the FMI has lately identified as positive have been included in the analysis.Then, the RIGI's characteristics are analyzed, with special attention to its incentives and to the negative impacts it would have on the national production framework. The report's conclusions are drawn in the last section.

Conclusions

- A strong devaluation and the rise of the 'Impuesto PAIS' tax are the core of Milei's anti-industrial plan. Consequently, both the cost of inputs, which are necessary for SMEs, and rates have increased. However, it is not only about adverse macroeconomic conditions. The Emergency Decree 70/2023 has repealed a law which gave domestic producers priority in public procurement called 'Ley de Compre Nacional" and also, the Supplier Development Program called PRODEPRO. Industrial Promotion Law N° 21.608 has been repealed as well. Lines of credit promoted by public banks such as BNA (Banco de la Nación Argentina) and BICE (Banco de Inversión y Comercio Exterior) were also eliminated. These banks promoted technological development through lines of credits that sought investment and strategic projects. This fiscal adjustment means de-financing substantial organisms such as the Department of Industry and Productive Development, the National Commission on Foreign Trade, the National Institute of Industrial Technology and the National Institute of Industrial Property.

- An unrestricted trade openness is a major threat for the national productive framework. An import surge could turn out from eliminating the Automatic and Non-automatic Licenses policy, for example. Decreasing the import duties on white goods such as refrigerators and washing machines (from 35% to 20%); on tires (from 35% to 16%) and on plastic supplies (12.6% to 6%) have been the most recent measures. Altering the antidumping regime could be another blow to the national industry. The ruling party plans to impose a limit on the percentage of certain import rights. In addition, they seek to establish a maximum timeframe of approximately 18 months for this sort of measures.

- Industrial policies have gained traction worldwide, as they have proven themselves crucial in the global dispute for industrial and technological leadership. However, the RIGI and Milei's theoretical framework overlook this global tendency. When it comes to energetic transitioning towards green economies, industrial policies are fundamental. They accelerate the change and they position nations within value chains. The IMF itself has recently published a report that details industrial policies which have been adopted by developed countries since the pandemic to the present. It is called 'Industrial Policy Coverage in IMF Surveillance— Broad Considerations' and it was published on March 2024.

- IP has turned out to be a State Policy in the U.S. Laws such as the CHIPS Act, the Bipartisan Infrastructure Law (BIL) and the Inflation Reduction Act (IRA) have been implemented as industrial policy measures in both Trump's and Biden's administrations. The objective: to address China's competition and to strengthen the U.S. industrial framework. The European Union has launched its industrial policy in the Green Deal, which seeks to maintain the European industrial capacity and to preserve manufacturing employment. Brazil is reinforcing fiscal incentives to boost its industry. It is also intensifying trade barriers with the recent application of import quotas in eleven types of steel and alloys.

- The RIGI incentivizes the influx of projects with U$D 200 million in capital as a minimum, with extensive tax and exchange rate benefits and fiscal stability for 30 years. In the event of disputes, they will be solved in the ICSID. Thus, the project relinquishes sovereignty.Although priority sectors are not detailed, congressman Miguel Ángel Pichetto –aligned with Milei- expressed the implicit: the bill is for mining, oil and gas. As well as in the 90s, the purchase of stocks of up to 15% can be considered as a project.

- A due analysis of an investments regime involves an evaluation of its impact on dollar generation, fiscal improvement, a change in the productive matrix and job creation. In this case, the following is observed:

- In terms of foreign exchange, the scheme provides for a 20% of free availability during the first year, 40% in the second and a 100% in the third. Therefore, a dollar influx will be hindered.

- In fiscal terms, profits are reduced to a 25%, export duties are eliminated from the third year onward, the Tax on Debits and Credits can be offset against income and VAT benefits shall be granted. Import duties are to be eradicated. Provinces and municipalities will be prevented from altering taxes on this projects. This will mean an increase on tax expenditure, as pointed out by the Congressional Budget Office.

- Stability is guaranteed: if there are controversies over this tax, customs and exchange measures, they will be solved in foreign jurisdiction. This includes fiscal stability up to 2058, what means that there cannot be any tax or exchange alterations from now on. All of this makes Argentina an extractive enclave for, at least, 30 years. In the event of a dispute with the Nation State, it would be solved by a foreign arbitral tribunal in which 88% of claims filed against Argentina ended up with adverse ruling against the country.

- The FATF warned about the lack of controls regarding the influx of illicit capital, what makes the RIGI a potential vehicle for money laundering. The 'Ley Bases' bill also introduces the disclosure of undeclared assets -a low cost money laundering offer- with an absolute lack of controls that is available even for non-residents. Argentina will become a financial hub for assets that have fled taxing in other countries.

- A change in the productive matrix: there is no technological transfer. Instead, the foreign investor will benefit because the local producer must pay tariffs on the inputs to produce the same goods. There is no Supplier Development policies given the fact that the Emergency Decree 70 eliminates two programs which are essential: 'Compre Nacional' (which means Buy National Production) and the Supplier Development Program (PRODEPRO). There is no added value.

- In addition, the RIGI adherents will not have the obligation of commercializing their products in Argentina. A quasi-colonial regime has been designed and will be executed: foreign companies will produce with extreme benefits and they will export freely without supplying the local market.

- Job creation: this project focuses on extractive activities with little productive linkage so job creation will be scarce. The agriculture, mining, oil and gas sectors have only accounted for 400.000 direct jobs in the last 15 years. This represents only 6% of the total registered private employment. They did not experience any increases or decreases, neither when they grew significantly nor when their activity declined. In that same period, these sectors created only 17.000 registered private jobs.

This initiative is part of the current administration's policy plan and it grants extreme benefits to large economic groups as its main objective. Therefore, fresh dollars are to be obtained and capital controls, lifted. Finally, economy can be dollarized. There is no positive counterpart for our national development. The 'Ley Bases' bill is perfectly matched with the RIGI by measures such as: a flexible disclosure of undeclared assets with a zero rate; a reduction in the wealth tax on Personal Assets; privatization of public enterprises and the intervention in decentralized organism; deregulation of hydrocarbons sector; regressive changes in the labor sector and elimination of moratorium in the social security system. All of these agree on one goal: making a more unequal and less sovereign Argentina.

This document provides a translation of the principal findings from our report. For a comprehensive review, the full report in Spanish language is available at the following link:
https://centrocepa.com.ar/informes/508-la-politica-anti-industrial-del-gobierno-de-milei-implicancias-del-regimen-de-incentivos-para-grandes-inversiones-en-la-ley-bases .

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