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**Policy Approaches for Knowledge-based Services
in Argentina**

by

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Knowledge-based services: a strategic sector in Argentina

During the last two decades, knowledge-based services (KBS) -services that use high technology and/or have the relatively highly skilled workforce that is required to benefit fully from technological innovations (OECD, 1999)- gained relevance in the Argentinian economy and became a strategic sector for three main reasons.

First of all, KBS create **high-quality jobs**. During the last two decades, employment in these activities grew faster than in other industries and their share in total private formal employment rose from 4.3% in 1996 to 6.4% in 2016. There are over 421,000 registered private jobs in KBS which contrast to employment in other sectors because of their skills², formality³ and higher wages⁴. When considering also freelancers, entrepreneurs and informal workers, more than 1.1 million people work in KBS activities.

Second, KBS had a **good export performance** during the last two decades. Exports of KBS reached USD 5 billion in 2016, representing 7.2% of Argentina's sales abroad (only 0.5% in 1996). KBS are the fourth export complex -with similar sales abroad to the automotive industry- and they have registered a trade surplus for the last 13 years. Business, professional and technical services represent 70% of KBS exports. Argentina exports more software and computer services than Brazil and this industry has been the most dynamic among KBS. Main export destinations are the United States, Latin America and the European Union (Gayá, 2016).

Third, KBS have a great potential to foster **regional development** through decentralization of economic activity and export diversification in many provinces. There are 30 KBS clusters all over the country.

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² More than 83% of KBS workers have attended the university; only 23% of total workforce did.

³ Registered jobs represent 76% of employment in KBS and 67% in other activities.

⁴ Wages in KBS are 9.3% higher than the average wage.

Public policies to strengthen KBS in Argentina

As KBS are strategic, public policy supports these industries through different initiatives. This document describes only some of the most relevant instruments that aim to foster these sectors.

- **“Programa 111 Mil”** (111K Programme)

In order to prevent bottlenecks that could restrict growth of KBS, the government launched in 2016 “Programa 111 Mil”. It is an ambitious plan that aims to develop entrepreneurship (1,000 new entrepreneurs), strengthen education in universities (10,000 new professional in some KBS areas) and certify 100,000 coders in the next four years. The certificate is issued by the Ministry of Production and endorsed by the Ministry of Education and KBS industry. There are currently more than 30,000 students in the programme all over the country.

Besides developing software industry, “111 Mil” is expected to support digital transformation of other industries and promote digital inclusion. In fact, most students come from other industries and many of them have low-qualified jobs such as taxi drivers, hairdressers, babysitters, housewives, maids, kitchen assistants, waiters, among others.

- **National Programme for Regional KBS Clusters Development**

There are 30 KBS clusters in Argentina, where more than 38,000 people work in 1,000 firms. The National Programme for Regional KBS Clusters Development was created to strengthen and develop emerging clusters through capacity identification as well as cooperation promotion and strategic planning. In addition, the programme supports the creation of IT districts in main locations.

- **Financial and fiscal incentives**

There are also fiscal benefits and financing incentives for KBS firms. First, the Law for the Promotion of Software Industry enables firms that export, invest in R&D and/or certify quality to benefit from fiscal stability, tax credit to pay federal taxes and income tax reduction.

Second, the Trust Fund for the Promotion of Software Industry (FONSOFT) provides non-refundable contributions to finance projects focused on R&D, innovation and development of human capital, new products and processes. It also includes subsidies for start-ups, export credit for small and medium enterprises (SMEs) and scholarships.

Third, there are specific benefits for SMEs in KBS sectors, such as non-refundable contributions and preferential funding for investment and working capital.

E-commerce: significant opportunities

E-commerce offers significant opportunities for exports of goods and services. The first e-commerce platforms in Latin America emerged in Argentina in the mid-nineties and some of them expanded worldwide. Argentina has three e-commerce “unicorns”⁵ (private companies valued at \$1 billion or more): MercadoLibre (a B2C platform that became Argentina’s largest company and recently replaced Yahoo! is in the Nasdaq top 100), OLX (one of the world’s leading C2C platforms) and Despegar.com (the most important travel agency in Latin America).

E-commerce is relevant for services exports, especially KBS which are exported mostly through mode 1. As double taxation is one of the main barriers to cross-border KBS exports, Argentina is discussing new double taxation agreements and adjusting some existing treaties to avoid this problem. In addition, the country is negotiating several free trade agreements which include provisions on trade in services and e-commerce.

Exports of digital goods and merchandises through e-commerce are still less developed. However, the government has recently adopted some trade facilitation measures to improve exports of SMEs that are expected to contribute to expand sales abroad through electronic means.

Final remarks

For the last 20 years, KBS gained relevance in the Argentinian economy and had become a strategic sector. They create formal, qualified and well-paid employment, have a good export performance and contribute to regional development.

Argentina is one of the best positioned countries in Latin America in the KBS global market and there are opportunities to continue developing its potential. Current policies try to address some of the main challenges to achieve that goal.

References

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⁵ In addition to these firms, there are two another Argentinian “unicorns” that also are KBS companies: Globant (software) and Bioceres (biotechnology).



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