

# BTI 2010 | Argentina Country Report

<b>Status Index</b>	1-10	<b>7.25</b>	# 28 of 128	
Democracy	1-10	7.90	# 25 of 128	➔
Market Economy	1-10	6.61	# 39 of 128	➔
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scale: 1 (lowest) to 10 (highest)    score    rank    trend

This report is part of the Transformation Index (BTI) 2010. The BTI is a global ranking of transition processes in which the state of democracy and market economic systems as well as the quality of political management in 128 transformation and developing countries are evaluated.

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## Key Indicators

Population	mn.	39.5	HDI	0.87	GDP p.c.	\$	13238
Pop. growth	% p.a.	0.9	HDI rank of 182	49	Gini Index		50.0
Life expectancy	years	75	UN Education Index	0.95	Poverty <sup>2</sup>	%	11.3
Urban population	%	91.8	Gender equality <sup>1</sup>	0.69	Aid per capita	\$	2.1

Sources: UNDP, Human Development Report 2009 | The World Bank, World Development Indicators 2009.

Footnotes: (1) Gender Empowerment Measure (GEM). (2) Percentage of population living on less than \$2 a day.

## Executive Summary

The period under review was marked by the continuity of economic growth, tensions stemming from the implementation of a macroeconomic model which rests on a high exchange rate and commercial and fiscal surpluses, and improvement in socioeconomic indicators. The political process continued to be characterized by the consolidation of the electoral predominance of the incumbent party, Frente para la Victoria (FPV), and the concentration of power within the executive branch. Since the 2007 elections, with Cristina Fernández de Kirchner taking over the presidency from her husband, Néstor Kirchner, political and social tensions emerged, levels of labor union mobilization increased, especially in the agrarian sector and in the provinces, all of which prompted the national government to introduce step-by-step modifications to the micro-level functioning of the economy and the configuration of political alliances. Many reforms, however, were not carried through, and the relations of both presidents with the media were tense.

The party system continued to be fragmented, and non-Peronist parties have neither substantial political weight nor clear alternative programs. Intentions to build a united opposition front advanced in 2008. All parties place short-term power interests above political and democratic reforms. The party elites have learned little from the crisis of representation. The parties' deficiencies in articulating and aggregating interests have led social actors to impose their interests directly through various forms of protest. Civic organizations are robust while organized labor's influence continues to diminish, the exception being the four farmer's unions that continue to protest against the government's inflexible agrarian policy. Indigenous people are largely neglected. Women participate actively in politics and have the same rights in the labor market, but they are the group most affected by the high rate of informal employment and the lack of a structural social policy. The autonomy of the Supreme Court of Justice was reinforced, but the relationship between the executive, legislative and judicial branches is unbalanced and favors executive power. The highly autocratic government style of both

Kirchners has aggravated this imbalance. Corruption extends to all levels of public institutions and also to the private sector. The penal code was changed, but police misconduct continues, torture is endemic and prison conditions are substandard. Argentina enjoys some of the highest levels of support for democracy in Latin America, although approval of its performance remains low. In some segments, institutional stability improved or did not change, whereas social integration continues to be a challenge.

On the economic front, Argentina's economic recovery continued, but it is more and more threatened by the impacts of the international financial crisis. The institutional framework for working toward a market economy has not changed significantly. Growth and inflation rates progressed significantly, as did export and import rates. Overall, economic development has improved both quantitatively and qualitatively, but is limited in some indicators. According to independent rating agencies, the real inflation rate is twice as high as official figures. Progress regarding investments, unemployment and tax revenue is remarkable. Effective macroeconomic management, focused on the generation of a primary fiscal surplus, contributed to pro-poor growth. Tax revenues have increased substantially and unemployment has fallen. A debt arrangement with foreign investors and the IMF, as well as Venezuela's bond purchase of more than \$500 million, improved Argentina's financial position.

Key social indicators have also shown steady improvement. Poverty and informality rates have abated since the worst of the crisis, but remain a challenge. The gap between the rich and the poor is broad. In general, democracy seems to be more consolidated today than it was six years ago, but it is still too early to tell. The economic recovery has little basis in structural foundations and is still too dependent on volatile internal and external factors. It remains an open question whether the Argentine democracy and its market economy are headed down the path of sustained development.

At the foreign policy level, five aspects dominated the agenda: distanced relations with the Bush administration; the conflict with neighboring Uruguay over the construction of a pulp mill; the continuity of the economic alliance with Venezuela; and the diplomatic tensions with Chile for cutting energy delivery. Argentina's foreign policy continues to be contradictory and provocative.

## History and Characteristics of Transformation

Chronic instability has been a key feature of 20th century Argentine history. Frequent changes in the system of government, irregular regime changes and crises within the dominant power cartels have impeded both development and implementation of coherent policies despite a high concentration of power in the executive branch. This political development culminated in the fierce military dictatorship between 1976 and 1983. The regime change which followed the economic and military disaster of the 1982–83 government was essentially a non-negotiated

transition initiated primarily by major party elites that had dominated the political landscape for decades (the Peronists and the Radicals), and secondarily by a number of intellectuals, union leaders and human rights advocates.

When President Alfonsín from the Radical Civic Union (Unión Cívica Radical, UCR) started his six-year term in 1983, Argentina finally seemed to enter a phase of political stability, but turmoil soon broke out. During the 1980s, the unions staged no less than 13 general strikes against Alfonsín's stabilization policy, which was being pursued through both orthodox and unorthodox strategies, and the trials of former leaders of military juntas led to four army rebellions in just three years. However, Alfonsín was able to ease military-civilian relations with the extremely controversial "Punto Final" law and the law on "Due Obedience." After the failure of the Austral Plan in 1986 and the 1987 parliamentary election defeat, an escalating economic and political crisis evolved in the first half of 1989 that was marked by hyperinflation and political stalemate. The crisis forced Alfonsín to cede his office to his rival from the Peronists (Partido Justicialista, PJ), Carlos Menem, six months before the end of his regular term.

In the early 1990s, President Menem and Economics Minister Cavallo succeeded in restoring growth to the Argentine economy and winning the favor of the nation's bourgeoisie and international creditors and investors. They did so by establishing peso-dollar parity through the 1991 Convertibility Law and by steadfastly pursuing a neo-liberal stabilization policy with the help of political support in the Congress. Throughout the 1990s, Argentina was widely hailed as a case of successful market reform under democratic government. The radical economic transformation undertaken by Menem in his first term (1990-1995) ended hyperinflation and restored economic growth. International financial institutions considered Argentina, with its rigorous implementation of prescribed policies, as the poster child of the neoliberal adjustment policies under the "Washington Consensus." Menem's economic policy successes secured him a majority in Congress in 1993 and – after the 1994 Constitutional Reform, which allowed for his re-election – a second term in office (which was truncated from six to four years through a constitutional amendment in 1995).

From 1990 to 1994, Argentina's overall growth rate averaged about 7.7% per year. However, the Mexican peso crisis of 1995 revealed the disadvantages of the Argentine model. With the peso pegged to the dollar, the Argentine economy was dependent on the U.S. economy, the dollar exchange rate and the influx of foreign capital. When long-term investment failed to materialize in the wake of the Mexican peso crisis and portfolio investments were withdrawn on a large scale, Argentina slipped into a recession that deepened in response to the Asian and Russian economic crises in 1997 and 1998, and devaluation of the Brazilian real in 1999. Menem's government quickly lost credibility at home and abroad as a result of these developments. In the 1997 parliamentary elections, the opposition alliance of the UCR and the center-left Front for a Country in Solidarity (FREPASO) defeated Menem's Peronists, who appeared worn out and discredited after eight years in power.

In the presidential, congressional and gubernatorial elections of 1999, a Peronist government was voted out of office for the first time in Argentina's history. With the election of the center-left alliance under the leadership of the Radical party's Fernando de la Rúa, an impending crisis

of representation appeared to have been at least temporarily averted. However, a Peronist majority in the Senate and among provincial governors left the coalition government prisoner to what had become the Peronist opposition. In addition, Vice President Chacho Alvarez, leader of junior coalition partner FREPASO, resigned in protest over a hushed-up Senatorial vote-buying scandal within the coalition's own ranks. The government failed to present a clear policy agenda – either to political actors or the public – to put the economy back on track, to find solutions to the nation's grave social problems or to initiate a consistent anti-corruption policy. Sinking public confidence resulted in unprecedented numbers of non-voters, abstentions and invalid ballots in the October 2001 parliamentary elections, and at the end of November, the IMF refused to release a loan installment. The crisis escalated, and de la Rúa was forced to resign in the midst of a rapidly deteriorating economic, political and social situation. A wave of protests and violence brought the nation to the brink of chaos.

On 1 January 2002, Congress elected Peronist Senator Eduardo Duhalde as Argentina's third president in less than two weeks. Confronted with a massive civil rebellion rallying behind the slogan "throw everyone out" ("que se vayan todos"), the new government's first move was to end the monetary convertibility system. Within a few weeks, the peso lost more than 70% of its value, triggering fears of hyperinflation. The economy fell into a full-scale recession, the banking system collapsed and economic activity grounded to a halt. At the same time, democratic institutions were near the breaking point, and hostility toward the political elite and social protests grew to such proportions that there was talk of military intervention. After police killed two protesters in June 2002, a badly weakened Duhalde was forced to cut short his own mandate. Finally, presidential balloting was rescheduled for 27 April 2003. In the first round of elections, Menem won 24.5% and Kirchner 22.4%. The UCR opposition suffered a devastating defeat. Menem dropped out of the second round, handing the presidency by default to Kirchner. By winning the mid-term congressional elections of 2005, Kirchner strengthened his political position and thus capitalized on several successes, including a strong economic recovery, a reform of the justice system, a successful debt arrangement with foreign investors and his efforts to address the human rights violations perpetrated under the former military dictatorship.

Since 2003, Argentina has been undergoing progressive recovery. The Kirchner government concentrated its efforts on reviving the economy and achieved remarkable success. Kirchner's position was reinforced after the parliamentary elections held in October 2005 for the renewal of half of the Congress and one-third of the Senate. His Frente para la Victoria (FPV) attracted 39% of the vote countrywide. His Peronist rivals, running under the PJ's platform, attracted only 9.5% percent. The UCR opposition mustered 15% of the vote. Kirchner could now claim the undisputed leadership of the Peronist movement, no longer having to share this with his predecessor, Eduardo Duhalde. Kirchner embarked upon the reform of key institutions such as the judiciary, the police and the army, launched important initiatives aimed at protecting human rights, and has made the strategic partnership with Brazil and integration into Mercosur his key foreign policy priorities.

Having won the 2007 presidential elections, Cristina Fernández de Kirchner took over the presidency from her husband Néstor Kirchner on 10 December 2007.

## Transformation Status

### I. Democracy

#### 1 | Stateness

The state's monopoly on the use of force prevails throughout the country and is not seriously disputed by functional organizations. The military does not infringe upon the civilian use of force. Federalism and so-called new security challenges sometimes restrict the state's monopoly on the use of force; in the poorer provinces, shortages in funding and personnel have limited the state's ability to act effectively. At the same time, increasing violent crime and the emergence of private security services threaten to erode – or worse yet – overwhelm the state's monopoly on the use of force in urban centers. The deterioration of public security, mainly in the urban centers, is a key issue in the mid-term elections of 2009.

Monopoly on the use of force

Relevant groups in society do not contest the definition of citizenship, the legitimacy of the nation-state or the validity of the state's constitution. There are some exceptions. One is the alarming growth of anti-Semitic incidents and the dissemination of racist literature. Argentina's Jewish community, the largest in Latin America, is a frequent target of anti-Semitic discrimination and vandalism. The civil rights of indigenous people, including the Mapuche in the south and the Tobas and Kolas of the north, are also an issue. Seventy percent of the country's rural indigenous communities lack title to their lands; however, Kirchner has returned lands to several communities. On the other side, public sensitivity for this problem is very limited. Only 3% of citizens are convinced that the indigenous suffer the most from discrimination.

State identity

Basically, the state is defined as a secular order. The constitution guarantees freedom of religion. Church and state are separated, and the political process is secularized. However, the Catholic Church is subsidized by the state and speaks with authority on important issues. But its political influence has diminished under Kirchner and Fernández. Néstor Kirchner and the Catholic Church have clashed on the issues of abortion, sexual education, human rights violations and poverty. Cristina Fernández banished a British Catholic bishop from the country who denied the existence of the Holocaust and engaged in anti-Semitic discourse.

No interference of religious dogmas

The state's fundamental infrastructure extends to the entire territory of the country, but it operates somewhat deficiently. The political administrative network and political parties administer public funds, but the distribution follows particularistic, clientelistic and non-transparent criteria. The weakness of the state and its institutions is especially apparent in its inability to prevent rampant tax evasion, which is one of the population's responses to the *corralito* (freezing of bank accounts in 2001). Tax evasion is also indicative of the population's general mistrust of the public sphere and prevailing rules of the game among the political class. The second generation of structural reforms has been postponed since the 1990s, and although international financial agencies have urgently demanded their implementation, there has been little progress on this front. The public sector's efficiency has not increased substantially.

Basic  
administration

## 2 | Political Participation

Universal suffrage and the right to campaign for office exist in Argentina. Elections are administered correctly. With a few exceptions, especially at the provincial level, governments respect the rules that govern open and competitive elections. Some isolated attempts to manipulate elections were cleared up and/or at least morally sanctioned. General elections are held and accepted in principle as the means of filling leadership positions. According to the *Latinobarómetro* 2008, 68% agree that democratic elections provide the best means of choosing leaders. The percentage of absentee votes, blank votes and protest votes decreased considerably in the presidential and parliamentary elections of 2003; it dropped further in the 2005 and 2007 elections. The 2007 elections were also considered fair and free. According to *Latinobarómetro* 2008, 63% of Argentines interviewed were convinced that their votes have a genuine impact, whereas this is true for an average of only 59% Latin Americans generally.

Free and fair  
elections

During Néstor Kirchner's presidency, representatives had sufficient authority to govern and the influence of actors with veto power declined. The president, with his autocratic government style, successfully defended himself against interest groups such as the military, the industrial sector, trade unions, privatized public companies, the banks and the Catholic Church. This sometimes damaged the president's relationships with these interest groups. However, the government of Néstor Kirchner and, since her election victory 2007, of Cristina Fernández, reacted to union demands for wage increases with more flexibility than before. The influence of organized labor, dominated by Peronist unions, decreased dramatically in the past decade because of corruption scandals and internal divisions. The military was no longer a veto power in political affairs, their role having been reduced substantially since the first years of the Kirchner government. In August 2008, the Senate voted unanimously to scrap the military justice system, meaning that military personnel

Effective power to  
govern

and civilians will now be equal before the law. Military criminals have been subsumed into the standard criminal code, and a military criminal procedure for times of war was created. Relations between the government and Argentina's entrepreneurs have improved with the recovery of the economy.

After the mid-term elections of 2005, the relationship between the government and agribusiness has become more and more complicated due to high export taxes. However, none of these actors had any real veto power until the general elections of 2007. This changed with the presidency of Cristina Fernández. The conflict with the farmers, represented by the four agrarian organizations, increasingly dominated the political agenda and remains unsolved at present, despite incremental concessions by the government on the export tax issue. As a consequence, the farmer's union is becoming a veto power under the Cristina Fernández government, clamoring for more flexibility and compensations for lost gains. The government is more and more isolated and risks losing substantial votes in the upcoming mid-term elections.

Citizens are free to establish political and civic organizations. These rights are generally respected. Civic organizations are robust and play a significant role in society, although some fall victim to Argentina's endemic corruption. Labor organizations are dominated by Peronist unions. Union influence, however, has decreased dramatically since the Menem era because of the neoliberal wave, corruption scandals and internal divisions. Beyond the established forms of interest group articulation, there was an emergence of basic organizations, self-help groups and other forms of self-articulation and protest. With a few exceptions, the government reacted with flexibility, incorporating some movements or responding to their demands with material benefits.

Association /  
assembly rights

Freedom of information and freedom of speech are generally safeguarded. However, effective access and monopoly controls are absent, particularly in television, which is dominated by a few companies. Argentina is one of South America's leading media markets. The country has well over 150 newspapers, hundreds of commercial radio stations, dozens of TV stations and one of the world's highest penetration rates for cable TV. Over time, the industry has consolidated and large conglomerates have emerged. Public broadcasting has not played a major role in the development of radio and TV.

Freedom of  
expression

Since the return to democracy in 1983, the media established itself as both a stage for and a principal actor in politics. Journalists have generally been able to carry out their work freely. But since the Menem presidency, government influence over the media has grown. The relationship between Néstor Kirchner and the conservative sector of the press, including the newspaper "La Nación," deteriorated. Kirchner criticized, in an offensive manner, the lack of pluralism, the corporatism of the media and the absence of journalistic self-criticism. During Cristina Kirchner's presidency, this hostility turned also to El Clarín, which in the years before had been considered a near-official organ of the government. Some journalists working



for the independent media have received threats. Businessmen who contemplate contributing funds to opponents find their taxes suddenly subject to an audit. Government officials are still accused of verbally mistreating independent journalists, and provincial governments continue to manipulate official advertising to favor media outlets they consider friendly. Media rights watchdog Reporters Without Borders says journalists in the provinces risk being “hounded” by the police and courts. After five years of debate in Congress, a Freedom of Information Act failed to pass in 2006. In January 2007, Human Rights Watch praised the full liberty of the media in Argentina, but they also criticized Kirchner’s media policies and recommended that he put a stop to the favoritism that has defined his approach to media law.

On the whole, the media enjoys a good reputation. Notwithstanding the aforementioned restrictions, the media, above all the press, continues to enjoy broad credibility and influence, the latter due in part to the continued criticism of public institutions and major political parties for their corruption and clientelistic practices, although this has decreased in comparison to prior years. Media organizations serve as agents of “societal accountability,” exposing and denouncing (and thus raising the political cost of) state abuse. According to Latinobarómetro 2008, 57% of the citizenry has confidence in the radio, 45% in the television and 47% in the press.

### 3 | Rule of Law

During the 1990s, the balance of power between the three branches of government clearly shifted in favor of the executive, resulting in “presidential hegemony.” The judiciary has become increasingly politicized and governance by decree has become a common practice. Legal infringements of every sort generally go unreported. Although Néstor Kirchner pursued some important initiatives concerning the balance of powers, his administration was very autocratic, usually choosing not to coordinate with his cabinet members and his own party. His and his wife’s influence in parliament was highly visible in the legislation process, in the nomination of judges for the Supreme Court of Justice and in decisions about commission memberships within Congress. These government practices have not changed under Cristina Fernández’s presidency. The Kirchners govern mainly by decree and without any protest from members of parliament. Congress has ceased to play much of an active role in government, even though the Kirchners’ party has a majority in both houses. The president has access to huge amounts of off-budget money that is used to build its own political machine. This is more disturbing in a country where democratic institutions are fragile and where corruption, cronyism and patronage have been the principal tools of government.

Separation of  
powers

Notwithstanding the concentration of power in the executive branch, the Kirchners never have been able to govern unilaterally (as Chávez has in Venezuela). The

president is constrained by province governors, civic organizations and the media as agents of “societal accountability,” and, last but not least, by a growing opposition inside and outside the Peronist party. In sum, Néstor and Cristina Kirchner’s ability to concentrate power is limited by democratic institutions, a strong civil society and the nature of their own Peronist coalition, which has incrementally eroded under Cristina Fernández. Notwithstanding the relative force of counter-powers to presidential hegemony, some patterns of institutional manipulation, a typical practice under Menem, continued under the Kirchners’ presidencies. Examples include the reform of the Magistrates Council, the 2006 “superpowers” law that granted the president vast discretionary authority over the budget, the elimination of open primaries to nominate presidential candidates (a law established in 2002) and the government’s assault on the once-independent state statistical agency, INDEC, by firing INDEC technocrats and creating dubious new procedures for calculating inflation. In some areas, the Kirchners respected the letter of the law while violating its spirit. Thus, although Congress’ impeachment or threatened impeachment of six of nine Supreme Court justices – which was encouraged by Néstor Kirchner – was legal, it reinforced the pattern of executive encroachment that has existed since the 1940s. More problematic was the Kirchner team’s intentions to extend its stay in the presidency beyond two terms, modifying the constitution to permit Néstor a third term, a strategy that met widespread societal opposition and failed in the end. The legislative and judicial branches’ key weakness is their consent to the strength of the executive branch. The Argentine Congress has few experienced leaders, virtually no professional staff and little technical expertise, and its committee system and oversight bodies are poorly developed.

Néstor Kirchner made some moves toward a more independent and reformed judiciary. He pushed for the resignation of the Supreme Court’s president and reformed the process of nominations which until recently was non-transparent and dominated by the executive. He improved the quality of the Supreme Court by nominating qualified and independent justices, establishing new procedures – such as public hearings – to ensure greater transparency and accountability in the judicial nomination process. He also reduced the court’s size from nine justices (a product of the 1990 packing of the court) to seven and later to five. On the other hand, Kirchner himself also influenced the nomination process for the Supreme Court. He also showed a lack of respect for procedure – rather than publicly attacking the judges, he could have pursued the more conventional avenue by going straight to the judicial council, the Consejo de Magistratura, which is responsible for the appointment and removal of judges.

Kirchner’s championing of justice for those who suffered human rights abuses under the military regime was an extremely popular policy. However, his attempts to restore the credibility of the Argentine justice system were dented in February 2006 when the government overhauled the composition of the Consejo de

Independent  
judiciary

Magistratura. Human rights groups claimed that the changes undermined the safeguards of judicial independence because, by reducing the council from 20 to 13 members, the proportional representation of politicians was increased.

One of the main themes in Cristina Fernández's inaugural address was sweeping judicial reform, including the popular gesture of making judges pay taxes, to restore the public's faith in the judiciary and to "reconstruct the value of security in the face of some incomprehensible judicial rulings." On the other hand, the gap between expectations and the real rule of law remains wide. Public confidence in Argentine jurisprudence remains low. Fifty-four percent of Argentines are convinced that it is possible to bribe a judge; only 18% think that equality before the law is guaranteed (Latinobarómetro 2008). All political and administrative levels are vulnerable to corruption and political influence. The weakness of the rule of law is combined with a system of privileges that violate the principle of equality. The system also lacks transparency, efficiency and neutrality. Aside from the changes in the Supreme Court, the Consejo de Magistratura and the Cámara de Casación Penal, few of the promised reform projects have been realized. The reform of the justice system as a whole will require long-term commitment and sustained effort.

Corruption continues to pervade public institutions. Leading anticorruption activists have accused the administration of stalling on its good governance agenda, particularly by failing to ensure effective functioning of administrative controls. Only one in five Argentines (22%) believes that the fight against corruption is successful. Additionally, Argentines are convinced that 76% of all public employees are corrupt (Latinobarómetro 2008). In June 2007, Economy Minister Felisa Miceli was forced to resign after more than \$60,000 was found in her office bathroom. The same scandals also hit the defense minister, who was accused of tax evasion. Finally, during the election campaign of 2007, \$80,000 in cash, which was seized at the Ezeiza Airport in Buenos Aires, was discovered in the suitcase of a Venezuelan businessman traveling in a plane chartered by Argentina's state oil company.

Prosecution of  
office abuse

Political parties, legislators, the police and the judicial system are perceived as the most corrupt institutions. Abuse of office by elected officials usually goes unpunished. The executive's excessive use of legislative competencies is often criticized. Nepotism in the provinces, the eternal temptation of the governors, is still endemic. The obstacles that prevent the efficient prosecution of corruption are not moral or legal, but are rather a set of informal practices that discourage, preclude or frustrate an effective investigation.

Civil rights and liberties exist and are guaranteed, but since both the police and the judiciary are politicized, corrupt, poorly paid and inefficient, legal action against violations is usually inadequate. The excessive use of force by police and other security forces has been reported as a recurrent problem. The situation in jails is

Civil rights

also problematic due to severe overcrowding and the poor quality of basic services. In addition, torture continues to be a serious issue in prison and detention centers. Excessive use of police force against public demonstrators and the arbitrary arrest of citizens have also been common in the recent past, reaching its peak in the turmoil of December 2001. Néstor Kirchner's government tried to address these issues; for example, it handled demonstrations and piqueteros activities without using undue force.

Despite an adequate legal framework, the judicial system's response to human rights abuses is still poor. The Argentine military and the police are resistant to government enforcement of human rights. The national and provincial governments have failed to change the prevalent culture in the security forces, which have committed human rights abuses. In addition, emphasizing "security" over "rights" decreases opportunities for a government to make an explicit assertion of the centrality of human rights for security. In Argentina, the conceptual centrality of human rights (as opposed to citizen or human security) has facilitated such an assertion.

Another issue of primary concern for Argentines is public security, especially in Buenos Aires. In the aftermath of the 2001-2002 crisis, the level of violent crime as well as the public perception that crime was a problem increased markedly. Much of the increase has been fuelled by a growth in illegal drugs use and by the complicity of high-ranking judicial and law enforcement authorities in the drug trade. Moreover, governments repeatedly failed to reform police forces that were known to be corrupt and complicit in criminal activity. Kirchner launched an overhaul of the police force, but rejected public calls for a "strong hand" and to adopt classic "law and order" policies that might threaten civil liberties. This opened up space for law-and-order appeals on the right. The public security issue continues to loom large in public opinion.

Balancing public demands for security with the commitment to civil and human rights is also a challenge for Cristina Fernández. According to the last Latinobarómetro, growing public insecurity and crime rates are problems of the first rank in Argentine perception (Latinobarómetro 2008: 21%, compared to labor problems: 17%). Failure on the public security front could fuel the rise of law-and-order populism, which could place many hard-won civil liberties at risk.

#### 4 | Stability of Democratic Institutions

After the near breakdown of democratic institutions at the end of 2001 and the first half of 2002, democratic institutions, including the administrative system and the judiciary, have recovered step by step. However, their effective functioning is not sufficiently guaranteed and their interrelationships are not entirely smooth. On the

Performance of  
democratic  
institutions

cabinet and ministerial level, the process of coordination is very weak. Néstor Kirchner monopolized decision-making power and gave his colleagues in the cabinet little margin for action. Under the presidency of Cristina Fernández, this practice was moderated but not changed fundamentally.

Both Néstor and Cristina Kirchner's presidencies are characterized by a significant concentration of executive power. Like Carlos Menem during his first presidential term (1989-1995), Néstor Kirchner governed at the margins of Congress and other institutions of horizontal accountability. Through the end of his term in November 2007, Kirchner issued 232 executive decrees, a rate of 4.3 decrees per month, which matched that of Menem (4.4 per month). Kirchner retained the emergency powers delegated to the executive by Congress during the 2001 crisis, and in 2006, Congress granted him vast discretionary power to modify the budget after legislative approval. His wife Cristina also governs by decrees and the loyal PJ majority in both chambers gives her the necessary backing. The PJ's success as a legislative majority party stems from its functioning as an effective cartel. The majority party leadership uses its majority status to dominate the legislative process, excluding legislation that it believes may pass despite its objection (negative agenda control). The opposition, lacking both negative and positive agenda controls, is left in a very reactive position. The system of formal and informal incentives ensures that obstruction of the government is more profitable for the opposition than cooperation. The electoral system has the same effect. The rebirth of provincial power, linked with the weakening of the party system, has produced a redistribution of political power, with considerable consequences for governance. The "localization" and decentralization of politics emerged without the parallel development of a solid party system and institutional mechanisms that typically constitute a countervailing power to these centrifugal tendencies.

The relevant actors accept democratic institutions as legitimate, but do not always actively support them. Notwithstanding the concentration of power and the PJ's electoral dominance, the core institutions of Argentine democracy remain strong. Elections are clean, with some exceptions, and civil liberties are broadly protected and possible veto powers are weakened. The military, responsible for six coups between 1930 and 1976, has withdrawn from politics. The constitutional order has not been interrupted since Argentina's return to democracy. The reiterated FPV victories in the general (2003 and 2007) and mid-term elections (2005) were the product of opposition weakness, not of incumbent abuses.

Commitment to democratic institutions

## 5 | Political and Social Integration

The systemic crisis of 2001-2002 had a profound effect on the party system. Even though the Peronist voter base is relatively stable, the system as a whole suffered a partial collapse. The degree of fragmentation is high, and the weight of the different

Party system

“players” is very unbalanced and volatile. The UCR is fighting for survival and is in disarray, with the majority of the UCR governors and the most important UCR mayors in alliance with the Kirchners – thus earning them the label “K-Radicals” – while the national leadership of the UCR has maintained its opposition strategy. The parliamentary elections in October 2005 gave Néstor Kirchner a majority in the two chambers. The Kirchner-Duhalde rivalry, which broke out in the 2005 election campaign and was described as “irreversible” by most local analysts but has lost steam since the elections, surfaced again at the end of 2008 before the mid-term elections of 2009.

Smaller parties, such as the center-right Propuesta Republicana (PRO) and the more left-leaning *Afirmación para una República Igualitaria* (ARI), occupy different positions on the political spectrum, and are active only in certain provinces. Since the general elections in 2007, only the ARI, established in 2000, has been a viable political force in competition with the PJ and the UCR. In contrast to these two parties, the national third parties have never established an effective party organization and are overly dependent on the popularity of a single leader (or small coterie of leaders). These third parties have consistently failed to significantly extend beyond their initial core geographic area of support, the Capital Federal and the portion of the Province of Buenos Aires adjacent to the Capital Federal (Greater Buenos Aires).

Cristina Fernández’s overwhelming victory in the presidential elections of 2007 can be attributed to her well-executed publicity campaign and her husband’s formidable assistance; her victory is also rooted in the continued strength of the Peronist party machine. Finally, it was also a product of the opposition weakness. The “K-Radicals” supported Cristina Kirchner, not UCR-backed candidate (and former economy minister) Roberto Lavagna, and one of them, Julio Cobos, became Mrs. Kirchner’s running mate. None of the other opposition parties possessed a national organization or a significant activist base. Oppositional activities were confined largely to urban centers where they had substantial success in the 2007 elections. The PJ, on the other side, was virtually unchallenged in many peripheral provinces.

In 2008, Néstor Kirchner conquered the PJ presidency. The result is a de facto single party government; one could even call it a movement (“Kirchnerismo”). The weakness of the opposition, comprised of non-Peronist votes and parties, may have negative consequences for the democratic process. The PJ has a virtual lock on both the Senate, in which all provinces are represented equally, and the majority of governorships.

The existing network of associations is relatively fragmented and dominated by a few strong interest groups. The political influence and the mediating capacity of the industrial and financial sector, as well as of the trade unions, has diminished under Kirchnerismo. Notwithstanding, organized labor continues to play a strong role in

Interest groups

Argentina. Argentine law provides unions with the right to negotiate collective bargaining agreements and to have recourse to conciliation and arbitration. The Ministry of Labor, Employment, and Social Security ratified collective bargaining agreements that cover roughly 75% of the formally employed work force. The established channels between organized interest groups and the executive were interrupted during the crisis of 2001-2002. The leading role in the protest movement of 2001 and 2002 was not played by the trade unions, but rather by the piqueteros, escraches and cacerolazos. Some leaders of these basic movements were co-opted by Kirchner and integrated as public employees into the national or provincial administration. The weight and acceptance of these basic forms of protest, political articulation and self-help in vast segments of the society, and the rise of alternative trade unions, increasingly threaten the hegemony of the established trade unions. Additionally, the image of the trade unions as corrupt organizations has by no means disappeared. For many people, the trade union bosses are part of the political establishment and were included in the slogan, “throw everyone out.” Néstor Kirchner, with his propensity for unilateral autonomous decision-making, only partially restored these relationships.

Today, the unions no longer play a quasi-universalistic role as agents of the working class. Argentine trade unionism now represents around half of the working class. Indeed, some union demands may enter into contradiction with the needs of the weakest and poorest sectors of the lower class. For example, the successful fight of relatively high-income workers against paying lower payroll taxes may result in fewer resources for social policy targeted at the extreme poor or the informal sector. In sum, the Argentine mainstream unions are today agencies that simultaneously foster social equity (by fighting for higher wages) and inequality.

According to Latinobarómetro 2008, support for democracy is high (60% in 2008), but has decreased (70% in 2005, 81% in 2006 and 63% in 2007; the Latin American average in 2008 was 57%). Only 18% believe that democracy functions better in Argentina than in other countries. Satisfaction with democratic performance grew significantly during recent years from 8% in 2002 to 34% in 2003, 50% in 2006, 33% in 2007 and 34% in 2008. Satisfaction with the government’s political performance in 2006 was, at 73%, the highest in Latin America and well above the average of 54%, but decreased sharply to 34% in 2008. Sixty-three percent believe that the most effective way to change things is to vote; only 14% are convinced that participation in protests is more effective. Political protests target the political class as a whole, but do not tend to call into question the constitutional framework.

Mistrust towards democratic institutions, their ability to be representative and their performance has not disappeared. In general, there is a wide gap between the acceptance of the democratic institutions and the judgments about their functioning. Seventy-five percent are convinced that Congress is indispensable for democracy (parties: 70%), but only 42% evaluate the work of the Congress as good (parties:

Consent to  
democratic norms

22%) and merely 31% have confidence in the Chamber (in parties: 14%) (Latinobarómetro 2008). One exception from the generalized mistrust of democratic institutions and representatives has been President Kirchner, whose popular support oscillated between 60% and 70% until the end of his term. The popular acceptance of his wife and successor was also high at the beginning, but has diminished dramatically during her first year, to only 23% at the end of 2008. Citizens also expressed highly skeptical opinions about the representativeness of the government: 87% of the population is convinced that the government works not in favor of the majority but only for the interests of a minority (the second lowest rank in Latin America). This percentage contrasts with the high expectations placed on the state: 97% of the Argentine citizens believe that the state has to settle problems, only 3% the market (Latinobarómetro 2008).

Since the 1980s, civil society has been broadly organized and highly differentiated. Self-organization and the construction of social capital advanced. But, while new social actors cooperate on the local level, where more than one-third benefited from horizontal social networks, their relationships with parties, parliament and the government was marked by distance and confrontation until the general elections of 2003. However, it was clear that these forms of civil organization were not able to displace the aggregating and mediating functions of the parties, just as little as social networks can compensate for an articulate social policy. The renewed dynamism of civil society as a provider of services due to the retreat of the state helps to explain why Argentine society has been able to resist the recent social and economic collapse without a more violent social outburst. The impact of civil society organizations was remarkable in terms of human resources mobilization on a voluntary basis during the crisis years, but decreased in the following years of economic recovery and high growth.

In terms of social capital, Argentina remains just within the bounds of the law; some authors even regard it as “an anomic society.” Fundamental social norms are poorly developed. Instead, rule-flouting individualism and interest groups determine behavior. Eighty-seven percent of Argentines believe that the government does not work for the majority but only for the benefit of some groups. Mutual confidence is still underdeveloped. The new forms of self-help and self-organization that had resurged during the crisis years largely disappeared with the economic recovery and the widening of social programs targeted at the most affected people. It remains uncertain whether, under Cristina Fernández’s presidency, the new forms of horizontal solidarity, self-help and articulations of basic democracy can survive and be utilized by the political parties for constructive responses.

Associational  
activities



## II. Market Economy

### 6 | Level of Socioeconomic Development

Key social indicators, which had dramatically worsened since the second half of the 1990s until 2002/03, improved substantially in the years under review. In the HDI 2008 update, providing data for 2006, Argentina was considered one of the 75 “high human development” countries. It ranks 46th out of 179 countries with a score of 0.860, being surpassed by only one Latin American country (Chile, ranked 40th with a score of 0.874). The poverty rate fell from nearly 50% in 2002 to 27% during the third quarter of 2007 according to official government statistics. However, income inequality and the scope of the subsistence economy remains a challenge. Due to their dependence on subsistence production, a large share of the population tends to be excluded from market-based socioeconomic development. The Gini index, which has worsened dramatically since the 1980s from about 0.400 to 0.540 in 2002, remains at a high level of about 0.520 (2006).

Socioeconomic  
barriers

Economic expansion since 2003 has created jobs, and unemployment declined from a 21.5% peak in 2002 to 9% in 2007. Néstor Kirchner and Cristina Fernández reversed a decade-long pattern of wage-depressing policies by encouraging collective bargaining and pushing through a series of minimum wage increases. These policies – along with tight labor markets – brought a 70% increase in real wages. Kirchner also pushed through a social security reform that extended access to unemployed and informal sector workers, thereby integrating more than a million new people into the system. Investment in public works increased more than fivefold under Kirchner, producing a major expansion in housing and infrastructure, while funding for education and scientific research rose considerably.

Economic indicators		2004	2005	2006	2007
GDP	\$ mn.	153129.5	183193.4	214241.2	<b>262450.8</b>
Growth of GDP	%	9.0	9.2	8.5	<b>8.7</b>
Inflation (CPI)	%	4.4	9.6	10.9	<b>8.8</b>
Unemployment	%	12.6	10.6	9.5	-

		2004	2005	2006	2007
Foreign direct investment	% of GDP	2.7	2.9	2.6	<b>2.5</b>
Export growth	%	8.1	13.5	7.4	<b>9.0</b>
Import growth	%	40.1	20.1	15.2	<b>20.6</b>
Current account balance	\$ mn.	3211.8	5274.9	7708.6	<b>7102.7</b>
Public debt	\$ mn.	98016.0	54225.1	60745.9	<b>66110.2</b>
External debt	\$ mn.	162378.6	124979.5	115855.5	<b>127758.2</b>
Total debt service	% of GNI	8.9	5.9	9.1	<b>3.7</b>
Cash surplus or deficit	% of GDP	-0.5	-	-	-
Tax Revenue	% of GDP	14.2	-	-	-
Government consumption	% of GDP	11.1	11.9	12.4	<b>12.9</b>
Public expnd. on edu.	% of GDP	3.8	-	4.5	-
Public expnd. on health	% of GDP	4.3	4.5	4.6	-
R&D expenditure	% of GDP	0.4	0.5	0.5	<b>0.5</b>
Military expenditure	% of GDP	1.1	1.0	0.9	<b>0.7</b>

Sources: The World Bank, World Development Indicators 2009 | UNESCO Institute for Statistics | International Labour Organization, Key Indicators of the Labour Market Database | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security.

## 7 | Organization of the Market and Competition

The foundations of a competitive market economy are by and large assured. After a long period of regulation of the economy until the 1980s, the Menem government implemented a wide-ranging liberalization and deregulation policy. According to Decree 1853 from 1993, foreign companies may invest in the country without registration or prior government approval, and on the same terms as investors residing in Argentina. Investors are free to enter Argentina through merger, acquisition, Greenfield investment or joint venture. In June 2005, the government increased the minimum holding period for capital inflows and subjected some capital inflows to a 30% unremunerated reserve requirement, to be deposited in a local bank for one year. Investments can be expropriated or nationalized only for public purposes upon prompt payment of compensation at fair market value. Foreign firms may also participate in publicly financed research and development

Market-based  
competition

programs on a national treatment basis. Foreign and Argentine firms face the same tax liabilities. In general, taxes are assessed on consumption, imports and exports, assets, financial transactions, property and payroll (social security and related benefits). The government has established a number of investment promotion programs. Those programs allow for VAT refunds and accelerated depreciation of capital goods for investors; they also offer tariff incentives for local production of capital goods, and include sector programs, free zones and a Special Customs Area (SCA) in Tierra del Fuego, among other benefits. According to the World Bank's latest "Doing Business" survey, Argentina in 2007 ranked 109th out of 178 nations and territories surveyed in overall "ease of doing business." The survey considered such issues as starting a business, dealing with licensees, employing workers, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and closing a business.

Until the end of 2001, Argentine law offered a number of protections for free capital and currency transfer. Law 21382, Article 5, implemented by Decree 1853/1993, allows foreign investors to repatriate capital and remit earnings abroad at any time. The flow of capital is nonetheless restricted, and repatriation is subject to some control. In 2008, Cristina Fernández launched a proposal in favor of indiscriminate repatriation of capital from abroad. The opposition denounced this initiative as an invitation to money laundering. No performance requirements are aimed specifically at foreign investors. Special regimes also apply to mining, oil and gas, and other natural resource sectors. In the World Competitiveness Report 2006/07, Argentina ranked 78th out of 125, 94th in "market efficiency," 70th in "technological readiness" and 79th in "innovation." The informal sector was reined in with the economic recovery, but remains a challenge.

Anti-monopoly policies exist but are executed within a weak institutional framework. They are very inconsistently enforced or even politically instrumentalized. The unrestricted privatization of public services during the Menem administration had led to the formation of monopolies and oligopolies without adequate regulation mechanisms. Increasing market concentration led to the passing of the new Antitrust Law 25,156 in 1999. However, the implementation of effective antitrust policies encountered severe barriers. The law provided for the creation of an independent Antitrust Tribunal, which so far has not been put in place. Thus the agency created by the former Antitrust Law, the National Commission for the Defense of Competition, is still responsible for recommendations in all mergers and antitrust issues, while the final decision on such matters is issued by the government. Néstor Kirchner in particular tried to utilize laws on competition in favor of Argentine firms. The refusal to create the Tribunal for the Defense of Competition has been justified by the government with the argument that such an organization would be incompatible with the creation of large firms that can compete at the regional level. In sum, different rationales

Anti-monopoly  
policy

interfere in Argentina's anti-monopoly policies as the government claims the power to decide on sensitive competition issues, especially in strategic areas such as energy or media.

Foreign trade is liberalized in principle, but in the case of Mercosur, it has resulted in multiple protectionist measures and trade disputes, particularly with Brazil, Argentina's most important trade partner. Even though a court for dispute settlements was established in 2004, protectionist measures and trade disputes did not disappear. For some products, such as beef, there are export restrictions. The move from convertibility to a managed float exchange rate regime, along with high commodity prices, has lifted the value of exports to record levels. National and foreign investment grew sharply. The trade surplus is one of the pillars of the current government's economic model. Imports were pushed up by fuel and capital goods. Exports were driven by the agribusiness sector. The national service for food and agriculture (Senasa) reported that grains and oil seeds accounted for 80% of export revenues. The current comparative advantage resulting from the favorable exchange rate is also fuelling re-industrialization. Argentina is therefore trying to improve its international market access. In the long run, however, Argentina needs more than just export growth. Structural reform, as well as a profound improvement of the general investment and business climate, appears indispensable.

Liberalization of  
foreign trade

The banking system and capital markets are relatively well differentiated, but only foreign banks are internationally competitive and meet international standards. The banks remain susceptible to broad fluctuations because of their substantial dependence on external capital. Privatization and liberalization brought mergers and oligopolistic formations, as well as company and bank collapses. The economic breakdown in 2001-2002, including the default and drying up of foreign capital, produced a banking system collapse. Many banks experienced losses in 2003. Some private banks closed and some international banks left. In early 2004, the government established measures to compensate banks for the asymmetric indexation of assets and liabilities. The volume of credit stagnated despite the economic recovery and has not reached pre-crisis volumes. Meanwhile, the banking system is more solid and banks have returned to profitability. The central bank has doubled its reserve funds.

Banking system

However, the financial resources necessary for stronger development require that the banking system and capital market be strengthened further. Private sector bank balance sheets, which deteriorated significantly during the economic crisis, recovered. Showing improved levels of liquidity and a significant reduction in net exposure to the public sector, credit – primarily to the private sector – increased at a faster pace than nominal GDP growth. According to the private rating agencies, most private banks (which hold approximately 55% of total financial system deposits and 67% of loans) have returned to solvency. Public banks are also solvent and liquid. However, across the system, new lending is mostly short-term, as access

to long-term financing is limited and borrowers are reluctant to borrow long-term at variable rates. This can complicate government and private sector efforts to develop a long-term fixed interest rate market, without which it will be difficult to deepen Argentine's financial markets or support large-scale project finance. According to the Latinobarómetro 2008, only 35% of Argentines have confidence in the banking sector, 9 percentage points less than the Latin American average.

## 8 | Currency and Price Stability

Argentina's economic policy goals include controlling inflation and implementing an appropriate foreign exchange policy. The anti-inflationary strategy is based on stabilizing the macroeconomic balance and checking the pressure on the price of certain goods such as beef. Instruments include making agreements with producers and intermediaries or limiting beef exports to maintain supply levels for the domestic market. Since the onset of high growth rates in 2004, fears of increasing inflation rates have re-emerged. Argentina's central bank has managed monetary and currency policy in support of the economic expansion, maintaining an under-devaluated or "competitive" exchange rate and negative real interest rates. However, many observers argue that the policy has contributed to a rise in the level of inflation in recent years. Inflation rose from 12.3% in 2005 and 12.7% in 2006 to 15% in 2008. Due to policies that stimulate consumption, the growth of inflation is not only related to the speculative increase in prices by business, but also to union demands for salary increases, to which the Kirchners are more receptive.

To help the majority of Argentine citizens cope with the economic crisis and control inflation, the government has broadly frozen key public utility rates since 2002, and, since 2005, has negotiated price stabilization agreements on a number of essential consumer goods. The manipulation of the inflation rates by the INDEC is widely discussed and criticized. Calculations by independent economists suggest that the real inflation rate is higher than 20%. The underestimation of inflation demonstrates an unwillingness of the government to pay its debts, since some 41% of public debt has interest payments indexed to the official consumer price index (CPI). Cristina Fernández took just enough steps to correct the CPI and restore credibility. Until now, the government's attempts to bring the inflation down through a combination of tighter fiscal policy and a "social pact" that seeks agreements among unions, industry and government on wage and price increases, have not been successful. The government decided to live with double-digit inflation for some time as a tradeoff for the rapid real growth of the economy and its positive impacts on poverty, employment and income distribution. Nevertheless, since the last month of 2008, as a consequence of the international financial crisis, there are signs that the long expansion in the economy is coming to an end, and consumption is falling.

Anti-inflation /  
forex policy

Notwithstanding impressive macroeconomic figures, there are some signs that the stability policy of recent years, with growth rates of 8.4% and 9.2% between 2003 and 2008, came to an end in 2009. One reason is that this policy lacked institutional safeguards since its inception in 2003. There are no political or institutional bulwarks against risky policy changes motivated by populism. In February 2005, almost three years after the country went into default, Kirchner succeeded in arranging a surprising debt swap with the majority of Argentina's private creditors. This arrangement reduced the public debt stock by about \$67.3 billion and reduced public finance exposure to exchange risk, since around 44% of new bonds are in local currency. The new bonds' long maturity and low interest rates should make debt service manageable. In 2008, the government subscribed to an arrangement with the private creditors who have not participated in the debt swap (around 24% of the debt, valued at \$25.255 million). In January 2006, the government paid its debts to the IMF. However, the benefits of this historic decision are hardly clear. Another point of worry is the problematic reform of the financial adjustment mechanisms between the central government and the provinces, which the IMF has emphatically demanded. Finally, the most important challenges facing the government in the economic field are to reduce the high inflation rate, to work out a constructive solution with the agrarian sector and to maintain a sufficient supply of energy.

Macrostability

## 9 | Private Property

Secured interests in property, including mortgages, are recognized and common in Argentina. Such interests can be easily and effectively registered. They also can be readily bought and sold. Property rights and the regulation of property acquisition are defined in principle, but practical enforcement in accordance with the rule of law is problematic because of deficiencies in the judicial and administrative system. The executive branch influences Argentina's judiciary; the courts are notoriously slow, inefficient, secretive and corrupt, and many foreign investors resort to international arbitration. Property rights are not safeguarded adequately against political intervention. The corralito had strongly violated private property rights and destroyed the trust in the state as guarantor of this right, but the loosening of bank deposits since autumn 2002 has partially restored trust.

Property rights

The government of Argentina adheres to most treaties and international agreements on intellectual property and belongs to the World Intellectual Property Organization and the World Trade Organization (WTO). Patent protection is an ongoing problem in Argentina's intellectual property rights regime and extension of adequate patent protection to pharmaceuticals is a contentious bilateral issue. Software piracy is increasing. Government manipulation of inflation statistics has caused domestic bondholders to lose billions in interest payments.

Private companies represent the backbone of the economy. The State Reform Law of 1991 privatized large portions of basic industry, infrastructure and other public services (sometimes below their true value). At the same time, significant segments of local industry were bought up by foreign firms. Privatization was accompanied by a series of corruption scandals and several undesirable side effects including mergers, monopoly formation, rising unemployment, shrinking real incomes, impoverishment of the middle class and increasing social inequality. The crisis of 2001-2002 motivated the government to freeze the tariffs of privatized public enterprises. This provoked conflict between the government and the firms. While the government complained about the lack of investment, the companies demanded compensation for the revenues they lost as a result of the end of the dollar-peso parity. As a consequence, the country slipped into an energy crisis. In the first quarter of 2004, the government allowed some power tariffs to rise, but simultaneously created a public enterprise, Enarsa, to provide cheaper energy to industry and consumers.

Private enterprise

As a reaction to the lack of investment by foreign companies, the two Kirchner governments declared that all contracts would be subject to revision, reversed the privatization trend of the former years and revoked some concessions or nationalized some public services. Néstor Kirchner re-nationalized the Correo Argentina postal service, airports and Aguas Argentinas, the water company. Under Cristina Fernández, the most spectacular cases of re-nationalization were those of the Aerolíneas Argentinas airline in September 2008 and of the ten private pension funds two months later. With respect to the latter case, the political opposition united in accusing the government of “ransacking” the savings of those she claimed to be protecting in order to circumvent default in 2009.

## 10 | Welfare Regime

Social networks are developed, but do not cover all risks for all strata of the population. What began as a government-sponsored welfare regime has been cut back in the spirit of neoliberalism. This new concept called for compensatory social services to accompany economic growth. Néstor Kirchner missed an opportunity to redistribute wealth and reduce income inequality. Though widely considered left of center, the Kirchner government neglected social policies aimed at combating poverty. Indeed, despite unprecedented fiscal health, the government did not invest heavily in either conditional cash transfers to the poor, or health and education programs for them, as did the left-center governments of Brazil and Chile. Social programs established to deal with the dramatic poverty emergency created by the 2001-2002 crisis, such as the Jefes y Jefas de Hogares program (with 150 pesos per capita), were scaled back and frequently misused for political objectives. However, program targeting has improved in recent years. Some social programs have

Social safety nets

increasingly been incorporated in employment programs, indicating elements of real policies for both the labor market and the prevention of poverty. On the other side, these and other assistance programs cannot replace a structural social policy. Rather than creating new social programs, both Kirchner governments invested heavily in public works. Cristina Fernández announced in June 2008 the creation of a so-called “social distribution program,” which would assign revenues from increased taxes on grain exports to building hospitals, homes and rural roads, but at the end of 2008 nothing had yet been implemented. Consequently, although unemployment and poverty rates declined sharply under the governments of Néstor and Cristina Kirchner, these declines were rooted almost entirely in economic growth. In fact, levels of poverty and inequality remained higher in 2007 than they were during the mid-1990s. In recent times, a new kind of poverty increased that is more diffuse than structural poverty, particularly in metropolitan areas. Considerable portions of the population continue living in poverty and have no access to social safety nets. The conditions facing informal sector workers, and particularly the structurally unemployed, remained bleak.

There are institutions and programs to compensate for gross social differences, but they are highly dependent on political cycles and limited in scope and quality. Despite continuing strong economic growth during the last five years, 27% of Argentines still live in poverty. The disparity of income distribution continues to be severe (Gini Index of 0.520 for 2006). The socially disadvantaged, poor women, indigenous peoples and immigrants do not have equal access to public services. Women have equal opportunities in education and participate actively in politics. Argentina is one of the countries with the highest quota of representation of women, but at the same time women are the part of the population most affected by problems of the labor market and therefore are disadvantaged in the economic and social sphere. According to the Latinobarómetro 2008, only 19% are convinced that all people are equal in the face of the law. Despite the recovery in recent years, the opportunity to escape from disadvantageous situations for persons from underprivileged households – in terms of income, employment, education, housing and other aspects – has not increased substantially. The environment continues to be hostile towards those who do not possess education and social skills. The dearth of resources effectively traps individuals within a vicious circle of recurrent poverty in which disadvantages negatively reinforce each other. Lack of funds has led to a drastic deterioration of the state health care system. The social welfare system model has consistently combined private and government funding for the common good, but both sides have run out of money since the exchange rate was floated. The Cristina Kirchner government began to address these problems, but clear-cut policies have not yet become visible. There are a number of institutions, government initiatives and basic organizations to compensate for wide social disparities; however, they are insufficiently financed, uncoordinated and disorganized.

Equal opportunity



## 11 | Economic Performance

During the period under review, macroeconomic indicators show that the Argentine economy performed quite well. Certain unorthodox economic policies have played an important role in the recovery. The most promising elements were the growth rate, budget balance, currency reserves, export growth, the employment rate and the development of the public debt. The economy grew 9% annually between 2003 and 2007, and in 2008, according to CEPAL, 8%. It is important to note that relatively little of this growth was a result of exports or of the favorable prices of Argentina's exports on world markets, but was driven rather by private consumption and investment, with investment growing at a 41% annual rate during 2002-2007. The economy reached its pre-recession level of real GDP in the first quarter of 2005. The fastest growing sectors of the economy were construction, transport, storage and communications. As an impact of this rapid growth, the household poverty rate fell from 41.4% in the first half of 2002 to 16.3% in the first half of 2007. The unemployment rate fell from 21.5% in 2002 to 9.6% in 2007.

Output strength

Any shortfall in 2009 is going to be small relative to the combination of the government's savings and excess international reserves at the Central Bank. It is difficult to imagine a situation in which there would be a problem in serving debt, and default appears to be out of the question. Beyond 2009, Argentina's debt service as a percent of GDP would appear to fall significantly and steadily. The inflation rate is trending upwards. The poverty rate remains high, and the rate of investment and saving are relatively weak. Susceptibility to external shocks remains high and the informal sector remains large; investment in science and technology is insufficient. The structural basis for sustained economic development remains fragile, and the impacts of the international financial breakdown are still yet to be determined.

## 12 | Sustainability

A major environmental problem in Argentina is pollution, especially water pollution in urban areas due to harmful disposal practices and in rural areas where rivers are polluted by increasing use of pesticides and fertilizers. The soy boom reinforced this trend. Twenty percent of urban residents and 83% of people living in the countryside do not have access to running water. Additional threats to the environment are the overexploitation of vast mineral resources, erosion problems due to inadequate flood controls and inappropriate land use practices, the hole in the ozone layer above Patagonia and the South Pole, and the deterioration of irrigated areas and desertification. Though the goal of sustainable development was

Environmental policy

incorporated in Article 41 of the 1994 constitution as the “polluter pays” principle, environmentally compatible growth receives only sporadic consideration and has a weak institutional framework. Theoretically, the budget surplus provides room to maneuver for environment protection. However, the government’s engagement remains modest and there is still no successful cooperation between the different levels of government in this area.

Macroeconomic growth is unbalanced and only partially takes environmental concerns into consideration. Sustainability lacks strong institutional foundations, and short-term growth objectives have taken precedence over sustainability considerations. Public environmental awareness is still underdeveloped, and punitive measures for infringements are more an exception than the rule. Finally, the country has still not formed a national environmental policy, and existing environmental laws are often not enforced because of a lack of adequate control mechanisms. On the positive side, in a big victory for environmental and social groups, each province had to produce a plan over the course of 2008 designating all forests within three categories: red, amber and green to signify the degree to which they are endangered. This plan met with fierce opposition from legislators from the northern provinces.

In January, February and March 2008, Argentina’s key agricultural provinces – Buenos Aires, Córdoba, Santa Fe, Entre Ríos, Santiago de Estero and La Pampa – suffered the worst drought in some 50 years. As a result, crop yields were down by more than 40% in some areas and livestock losses exceeded half a million. The government was forced to declare a state of agricultural emergency, but farmers argue – not unreasonably – that the government’s aid measures do not go nearly far enough. In the long term, the costs of the drought, to both the country’s finances and the government, are likely to be high.

Together with Uruguay and Chile, Argentina ranks at the top of education indices in Latin America and has the best enrollment ratio. However, the education system suffers from low quality, deep inequality and large differences between the federal states. The province of Buenos Aires is particularly severely disadvantaged by the uneven distribution of financial resources. In the course of implementing the 2005 Law on Education Financing, the government subsequently raised expenditures up to 5.4% in 2007, with the goal of reaching 6% in 2010. The country has a well-articulated system of primary and secondary education, but despite the increased expenditures it is still underfunded. The same holds true for the otherwise well-developed public university system, which has been complemented by a network of private universities since the 1980s. The structures necessary to administer the school system efficiently can only be developed in a few provinces, and the widening quality gap between rich and poor provinces is spawning a disturbing development. Despite shortcomings in reform, the foundations for a modern

Education policy /  
R&D

educational system exist. However, the country is still far from having an independent and elaborate science and technology policy. The majority of national enterprises focus on increasing profit rather than innovation. The wretched state of the economy at the beginning of this decade has resulted in a massive “brain drain” which, in turn, impedes the country’s development chances even further.

## Transformation Management

### I. Level of Difficulty

The structural constraints on governance have been moderate since the political and economic recovery that began in 2002/03. Several developments have improved the conditions for government performance: the majorities in the two chambers of parliament, the fortuitous performance of the international economy, at least until the financial crisis (including high raw material prices, a weak U.S. dollar, the recovery of the world economy and most Latin American economies after three years of stagnation, recession and debt arrangements), and the fragmented and weakened opposition. Aside from the high (but incrementally reduced) rate of poverty and the extent of the informal economy in urban areas, there are no major structural constraints.

Structural  
constraints

Argentina has a moderate tradition of civil society. Civil society organizations, particularly human rights groups such as the Madres de la Plaza de Mayo, played an important role during the transition period from authoritarian to democratic governance. However, with the strengthening of the two major political parties, the PJ and the UCR, the political influence and weight of civil society organizations has diminished. Nowadays, the field is very fragmented and objectives are very diffuse. In the context of the 2001-2002 crisis, new civil society organizations such as the piqueteros have increasingly emerged as important actors. Many of their activities were spontaneous and poorly organized, focusing on day-to-day problems; others tried to answer the social demand for action against the rampant crisis and the political inadequacy to cope with it. Some of the new movements disappeared with the economic recovery; others were co-opted by the Kirchner government or joined up with the agrarian farmer unions in the conflict with the government over export taxes on agrarian products.

Civil society  
traditions

There are no severe ethnic or religious cleavages. Division along social or ideological divides is moderate. As a consequence of widespread discontent with poor political management, society and the political elites remain somewhat polarized. Since the implementation of the radical reforms of the so-called “Washington Consensus” in the 1980s and 1990s, the historically important middle class has disappeared, increasing the gap between a very rich profit-seeking

Conflict intensity

minority and the impoverished majority. The expansion of social inequality culminated in the 1980s and 1990s in different forms of social protest, such as rioting, street blockades and supermarket plundering. In 2001 and 2002, they transformed into new social movements and forms of protest (piqueteros, cacerolazos), which, however, during both Kirchner governments increasingly declined in intensity and violence or disappeared. The majority of protests during the period under review were peaceful, did not infringe upon the legal order, and were addressed by concrete government responses and isolated from the societal environment. Cristina Fernández's populist strategy in the agrarian conflict to call on her supporters for mass demonstrations, thus avoiding the treatment of the issue in Congress, further polarized Argentine society. The unskillful, obstinate and volatile behavior of President Fernández in the agrarian conflict, which remains unresolved, provoked growing solidarity between parts of civil society and the protesting farmers' unions. Violent incidents were exceptions to an otherwise peaceful protest culture.

## II. Management Performance

### 14 | Steering Capability

The political leadership pursues long-term aims, but it sometimes postpones them in favor of short-term political benefits. The leadership seeks to build democracy and a market economy, but its strategic aims are not commensurate with the country's situation, problems and needs. Since the beginning of his government in 2003, Néstor Kirchner devised some strategic priorities in the areas of institutional strengthening, judicial reform, human rights, transparency, the fight against corruption and reform of the political system. Though all of these priorities in principle correspond to the deepening of the democracy and an economy with some Keynesian accents, the results were mixed. Cristina Kirchner promised to concentrate her government on a few priorities, following and deepening the strategic line of her predecessor and inflecting new accents in infrastructure and social policy initiatives. However, she neither upheld her promise to strengthen the political institutions nor did she provide for a sound economic framework.

Prioritization

The government is committed to democracy and a market economy, but has had only limited success in implementing its announced reforms. The implementation capacity of Cristina Kirchner's government was restricted or blocked by the conflict with the farmers' unions, internal conflicts in the PJ, political miscalculations and a

Implementation

lack of intra-governmental coordination. Only a few of her programs have been successfully implemented. The most contentious issues, the agrarian conflict and the trouble with the neighbor Uruguay, remain unresolved. Both Néstor Kirchner and his wife were forced to govern in a coalition with the negotiated consent of party bosses, and under Cristina Kirchner's presidency she has to work with some members of the opposition, the so-called K-radicals. The difficulty of achieving legislative discipline, despite the PJ's overwhelming legislative majority in the Congress, explains why Cristina Kirchner sought an extension of emergency executive decree authority immediately after taking office. She had to cope with some electoral defeats of her candidates in provincial elections (in Misiones, Entre Rios, La Rioja, Buenos Aires, Tierra del Fuego, Cordoba, La Pampa and even in the Kirchners' home base of Santa Cruz), which further restricted the president's inclination to isolated and non-negotiated decisions.

Whereas presidents Duhalde and Néstor Kirchner responded somewhat effectively to the mistakes and failed policies of the past, Cristina Kirchner showed little willingness and ability in policy learning but instead remained stuck in routines which did not allow for innovative approaches. Néstor Kirchner, an anti-establishment politician, concentrated government action on a few priorities, sometimes against strong international opposition as, for example, in debt questions. Kirchner's government style was authoritarian and opaque, sometimes imperious and rarely cooperative. He never held a cabinet meeting, refused to receive ambassadors, purged the Supreme Court, made uninhibited use of government money, taped telephone calls and characterized all forms of dissent or disagreement as illegitimate. His strategy – the so-called “transversalidad” – consisted of building bilateral ad hoc coalitions outside of his own party that were based on personal loyalty. But the strategy of building a “transversal” movement composed of progressive Peronists and non-Peronist leftists at the margins of the PJ machine never gained traction. Although Kirchner initially alienated some party bosses, he ultimately needed them to deliver the vote. Prior to the 2005 election, he made his peace with the party machine, and the transversal project was abandoned. His inner circle was limited to a selected few.

Policy learning

Cristina Kirchner won the October 2007 presidential election with 45% of the vote, 22 points ahead of her nearest rival. The margin of victory negated the need for a runoff. Her campaign was favored by a strong economy, which had grown by 8% each year since her husband took office. Kirchner began her presidency with a high rate of acceptance and the promise of “continuity in change” – a very ambiguous formula – and to cultivate a “culture of dialogue.” But the promise (and expectations from the Argentine citizens) of dialogue was not realized. As the agrarian conflict and other conflicting issues (for example, the INDEC manipulation by the government) clearly demonstrate, her political behavior has become more and more authoritarian and inflexible. Cristina Kirchner is surrounded

by a closed circle of functionaries and her actions are not coordinated, neither with members of her cabinet nor with her PJ faction, the Front for Victory (FV). In sum, she governs in a style very similar to her husband's, but has not learned from his errors and continues in the same manner or even worse.

## 15 | Resource Efficiency

The government uses only a part of its available resources efficiently. The main problems in the efficient use of resources are the president's discretionary power in budget issues and the way in which public servants are appointed.

Efficient use of assets

After the 2001-2002 crisis, the successful restructuring of the defaulted external debt by Néstor Kirchner's government was very important in terms of both enabling pro-growth policies to be implemented and avoiding the drain of resources and other negative consequences of a larger debt burden on the investment climate. Argentina was able to assert its independence from the IMF and its policy recommendations, primarily because it was running a large trade surplus, and therefore did not need foreign financing other than to service its foreign debt. In 2007, Argentina received major loans from the World Bank (\$1.76 billion) and the Inter-American Development Bank (\$2.12 billion), two international financial institutions that work closely with the IMF. These large loans would never have happened a few years ago, given Argentina's very antagonistic relationship to the IMF. Finally, in September 2008, after announcing the repayment of Argentina's \$6.7 billion of defaulted debt to the Paris Club of 19 sovereign creditors, the government signed an agreement with three banks to negotiate a deal to pay back outstanding debts excluded from the 2005 restructuring. This was a significant step forward for Argentina. Not only did it provide the government with funds to cover Argentina's 2009/2010 debt obligations – when Argentina's annual payments will shoot up to \$9 billion as the renegotiated debt starts to mature – but it would also purge the last remnant of the \$1 billion sovereign default in 2001. For the first time since the default crisis, Argentina would be able to access international market finance, and would no longer have to rely on Venezuela's President Hugo Chávez for cash.

However, there is no efficient use of available financial resources. Financial auditing remains insufficient. Neither the planning nor the implementation of the national budget is transparent enough. The presidents have exercised a high rate of discretionary power in budget issues that is not audited by parliament or other agencies. The so-called Economic Emergency Law – still in force despite the fact that the emergency has been over for a long time – enables the government to change budget items or increase expenditures without parliament's approval. Combined with a constant underestimation of state revenues in the proposed budgets, this allows for additional expenditures of almost 30% that are not subject

to controls. In effect, there is no trusted information about the deviation of actual budget expenditures from the associated planned expenditures.

Aside from budget issues, there is neither an efficient use of government administrative personnel nor an efficient administrative organization. Though performance criteria have become increasingly important in hiring, promotion and dismissal, patronage, clientelistic practices and tax evasion have not yet been eliminated. At the top level, erratic and sometimes abrupt personnel changes in the cabinets could be interpreted as a waste of resources. Concerning the civil service, its quality is severely affected by political interference that undermines professionalism and the administration's meritocratic principles. The Global Integrity Report 2008 states that honest civil servants who act against the wishes of an incumbent administration would be at risk. The report cites as one example the politicization of the National Institute of Statistics (INDEC), "where most of the qualified technical staff has been replaced by political appointees with questionable qualifications who are willing to alter the methodology used to calculate inflation and other macroeconomic data." In addition, there are great differences inside the federal bureaucracy and even more at the provincial level, where standards are generally very weak.

The government has attempted to coordinate conflicting objectives and interests, but has achieved only limited success. The president's usual response to upcoming conflicts with cabinet or party members was a decision from above or a non-decision. Néstor Kirchner's strategy of co-opting potential adversaries was quite successful. The tendency to govern by decree, with the tacit or open approval of the parliament, was reinforced during his presidency. One setback for the government occurred in December 2007, when the Senate initially rejected a bill to extend the Economic Emergency Act. The act granted extensive powers to the executive, particularly with regard to debt payments and public service contracts. Both presidents used the decree authority provided by the "superpowers" law to bump up the budget.

Policy  
coordination

Potential intra-governmental frictions were nipped in the bud by both presidents. The number of conflicting issues between the president and the legislature was reduced. The opposition was too fragmented and weakened in order to engage in serious conflicts with the executive and prevent government decisions. Some congressional members of the opposition supported the president with their votes. The most important group was the so-called K-radicals. In September 2008, Fernández followed up the budget presentation by using her first "decree of necessity and urgency" (DNU) – beloved of her predecessor, who used it to bypass Congress – to increase the size of the 2009 budget by \$11.58 billion, primarily to cover subsidies and pensions. The opposition refused to discuss the new budget unless these "superpowers" are repealed, arguing that they are no longer relevant in post-crisis times. As a consequence of the global financial crisis, Fernández adopted



a less confrontational style, appointing the popular Sergio Massa as her new cabinet chief; he has also pursued a similarly conciliatory approach.

The real opposition comes from inside the Peronists and is associated today with such people as Reutemann, a senator from Santa Fe, and the K-Radical Vice President Cobos. As a result of the conflict between Cristina Fernández's administration and the farmers, caused by the government decision in March 2008 to increase taxes on grain exports, the government has become increasingly isolated. Unable to capitalize on divisions emerging in the agriculture lobby, various government ploys at winning public support have failed, while political miscalculation has served to alienate the population further and to motivate some coalition members to desert the Kirchners. Vice President Cobos, who was responsible for the failure of the government's agrarian proposal in the Senate along with other politicians and provincial governors allied to the PJ, have deserted the Kirchners.

Although criminal prosecution of corruption appears to be a priority in the eyes of the public and was declared one of the priorities of both Kirchner governments, it continues to pervade Argentina's public institutions. There is vulnerability to corruption and political influence at all political and administrative levels. The weakness of the rule of law is combined with a system of privileges that violate the principle of equality. The system lacks transparency, efficiency and neutrality. Foreign investors complain about corruption in both government and the private sector. Criminal prosecution remains an exception in actual political practice. Abuse of office by elected officials usually goes unpunished. In the long run, the new composition of the Supreme Court may permit more effective prosecution. The obstacles that prevent the efficient prosecution of corruption are not moral or legal, but are rather a set of informal practices that discourage, preclude or frustrate an effective investigation.

Anti-corruption  
policy

There have been a few efforts to combat corruption, but only with partial success, as demonstrated by some scandals in recent years. Anti-corruption activists have accused both Kirchner governments of stalling on their good government agenda, particularly in not ensuring the effective functioning of administrative controls. The Anti-Corruption Office (Oficina Anticorrupción), which was implemented by the De la Rúa government and under which it enjoyed considerable independence, now depends on political will in order to initiate certain types of investigations. In addition, its authorities are appointed or removed by the president. The Global Integrity Report 2008 states that, under the Peronist governments since 2002, it has become increasingly difficult for the agency to carry out investigations that jeopardize the government's reputation.

## 16 | Consensus-Building

All relevant political actors agree that a market-based democracy should be Argentina's development goal, although ideas about the obstacles that will be encountered and the strategies that should be applied vary widely. In addition, apart from consensus on these basic goals, there is no agreement on eliminating defects in democracy or strengthening political and economic institutions. Efforts made under the De la Rúa administration abruptly ended with the 2001 crisis. Since then, the Peronist hegemony in the political system has provided for the maintenance of this so-called "low-level equilibrium" in which dominant actors are considered to be more important than institutions and can be checked or defied only by other dominant actors and not by the rule of law.

Consensus on goals

The fact that the approval of democracy continues to be very high, that there was no threat of a military coup after de la Rúa's forced resignation in 2001 and that, in fact, constitutional procedures were followed meticulously, can be interpreted as a sign of Argentine democratic maturity, especially in light of its dictatorial past. Relevant anti-democratic veto actors do not exist. The most important former veto players – the military, the trade unions and the church – are seriously weakened. The agrarian unions fought strongly against the export taxes imposed by the government of Cristina Kirchner, but they did not resort to violence as a strategy and they do not harbor anti-democratic interests.

Anti-democratic  
veto actors

In the post-crisis years, three Peronist presidents have tried to prevent cleavage-based conflicts from escalating, but with only partial success. Néstor Kirchner responded to social protests with a high degree of flexibility, moving between the implementation of a set of social programs, co-optation strategies and isolating the radicals (such as the piquetero movement). However, income inequality and political and social polarization were not reduced substantially, and remain a challenge for governance. After initially favoring a more conciliatory policy, he shifted towards a tougher policy regarding the piqueteros, and this strategy has begun to pay off. Not only was there a clearly visible decline in the number of roadblocks and protest actions, but at least one big piquetero group – the MTD Aníbal Verón – decided to abandon such actions altogether and seek talks with the government about an increase in unemployment subsidies, higher pensions and the re-nationalization of utilities. The high level of conflicts in the agrarian sector forced Cristina Fernández to moderate her government style and to bargain more cooperatively than her husband. Due to the necessity of building bridges to the opposition (first of all to the so-called K-radicals) to create pragmatic arrangements, the level of confrontation began to decrease. Nevertheless, the unresolved agrarian conflict and the economic and social impacts of the international financial crisis can provoke serious social conflicts and make latent social cleavages more visible in the medium term.

Cleavage /  
conflict  
management

The political leadership takes the interests of civil society into account and accommodates them only in part and only when these organizations can put pressure on the government, or when they form part of the power base of the government and/or the leading party.

Civil society  
participation

In their inaugural speeches, both Kirchners envisioned “a culture of dialogue” and saw themselves as presidents of a new era, but in fact, the inclination of both presidents to isolated or uncoordinated decisions was stronger. Although the two governments made various attempts to promote the population’s sense of solidarity, they have failed to strengthen interpersonal solidarity and to transform existing social engagement at the local level into civic engagement for the strengthening of representative democracy. The opposition parties remain fragmented and isolated from civil society. The civic and political engagement of the majority channeled through the parties continues to be low. Social movements that succeeded in mobilizing marginalized sectors at the forefront of the 2001/2002 turbulence were gradually demobilized. Néstor Kirchner restored the Peronists’ traditional capacity to appeal to and integrate the populist sectors “from above” – not least through the party machine’s patronage networks. The claims and actions of the piqueteros lost much of the broad social support they had received in the past, while more and more organizations for the unemployed concluded that some measure of cooperation with the government was the most effective way to assert at least some of their interests and values. Informal ways of exerting influence dominated, and formal democratic instances remained largely confined to piquetero leaders’ participation as individuals in parliament or governmental offices.

The relations between Cristina Fernández and organized labor are more balanced and based on neo-corporatist arrangements. Neo-corporatism has been used as a mechanism to moderate distributive struggles in an increasingly open economy. Wage agreements have been paralleled by bilateral government-business pacts on maximum prices in each sector. Thus, the government has administered the main prices in the economy through tripartite pacts on wages as well as through bilateral agreements with business, with the goal of controlling inflation. The unions play a new role in this neo-corporatist model, acting as a moderating force in the economy. Like her husband did before, Cristina Kirchner prefers populist top-down approaches to urgent social, economic and political problems, which involves calling up partisans to mass demonstrations and taking some spectacular measures to get popular support.

The political leadership has placed high priority on the issue of human rights violations and acts of injustice during past authoritarian regimes. During her presidency, Cristina Fernández continued the human rights policies of her husband. Néstor Kirchner embarked on a series of efforts to address past human rights abuses, and his progress in this area was quite remarkable. He discharged some high-ranking military officials, radically restructured the military and police

Reconciliation

hierarchies, and maintained a strong relationship with the human rights movement. Finally, the Supreme Court ruled seven to one against the “Full Stop” law (Punto Final) and the “Due Obedience” law (Obediencia Debida), which was partly backed by high-ranking army officers. In Kirchner’s pursuit of former officials involved in the “dirty war,” a police sergeant connected with the military junta was sentenced to 25 years in prison in 2006, and the presidential pardons granted by Menem to three military leaders were reversed. In addition, Isabel Perón, Juan Perón’s third wife, was detained in Spain in 2007 for her alleged role in the disappearance of students during her presidency (1974-1976). In October 2007, a former priest was sentenced to a lifelong prison term for his complicity in seven murders and other human rights abuses. In sum, the Supreme Court’s decision implies that hundreds of military officers finally face trial.

By prosecuting former officers accused of violating human rights, the government has begun to close a symbolic chapter by distancing itself from the military regime. Three symbolic gestures – first, the removal of the pictures of general Videla and Bignone from the gallery of honor in the former military academy; second, the transformation of the “Escuela Mecánica de la Armada (ESMA),” an ill-famed torture center, into a memorial site; and third, the opening of the archives of the military regime under the Cristina Fernández presidency – underlined this policy in favor of human rights.

However, doubts remain if these somewhat radical measures will help to bring about a process of reconciliation between the victims and perpetrators of past injustices. In addition, the trials against perpetrators of human rights violations suffer from various obstructions. Most disturbingly, the disappearance and sequestration of witnesses has limited the viability of legal proceedings against human rights violators under the military dictatorship. There are also complaints about the slowness and even indifference of the judiciary to promoting the trials. In its annual report 2009, the human rights organization CELS calculated that, given the current pace of sentencing, the trials would not conclude before 2024, more than 40 years after the end of the military dictatorship. As of December 2008, 187 out of 1,235 persons of interest had already died; others had to be set free because the legal time limit for pre-trial custody had expired. In her speech before the Congress on 1 March 2008, Cristina Fernández recognized this failure and blamed the judiciary for it, which in turn accused the government and the legislative of not providing sufficient resources and enacting necessary reforms in the penal code.

## 17 | International Cooperation

Since the recovery of the economy in 2003, the government has gradually begun to reopen the country to the international community. Some foreign policy measures, such as the debt swap and Argentina’s intimate relationship with Venezuelan

Effective use of support

president Hugo Chávez, have shocked the northern countries. However, this did not prevent these northern states from normalizing their relations with Argentina and offering new investment and assistance programs. The prioritization of immediate economic recovery over satisfying foreign creditors and the international credit market and the break with the IMF were very controversial decisions but economically successful. During her electoral campaign, Cristina Fernández sought to raise the profile of Argentina abroad, with official visits to Spain, France, Mexico, Germany, Chile and the United States, among other countries. U.S. analysts considered her presidency a potential turning point for relations with the United States, which were strained due to Néstor Kirchner's close relationship with Chávez. In 2009, four years after Argentina froze relations with the IMF under Néstor Kirchner's administration, the Cristina Fernández's government seems willing to accept an IMF review of the Argentine economy.

At the beginning of her presidency, the acceptance of and expectations of Cristina Fernández were very high, but this was replaced by growing skepticism over time. The strong alliance with Chávez, the flirtation with the Castro regime, the inflexible position in the pulp-mill conflict, the clash with the Spanish government about the nationalization of Aerolíneas Argentinas and - last but not least - the erratic behavior in the dispute with the farmers and unpunished scandals of corruption in the government circles have all nourished doubts about the continuity and reliability of Argentina's foreign policy.

Credibility

Both Kirchner presidencies prioritized the strengthening of Mercosur, notwithstanding disputes with Brazil in the commercial sector, pulp mill conflicts with Uruguay and gas supply disputes with Chile. The Argentine relationship with Mercosur partner Brazil is characterized by a mixture of friendship, political rivalry and occasional commercial conflicts. Brazilian President Lula, conscious that his path to regional integration passes first through Argentina, wants Argentina to sign up to Brazil's vision of regional integration in order to subdue increasing anti-Brazilian sentiments in some South American countries, notably Bolivia and Paraguay, and blunt domestic criticism of his foreign policy. Argentina, which accumulated a trade deficit with Brazil of \$4 billion in 2007, has complained about the imbalance of trade relations in Brazil's favor and has defended protective measures. Kirchner was the most vocal advocate of Venezuela's application for Mercosur membership. Though there are some conflicting issues between Argentina and neighboring Brazil, Uruguay and Chile, there is an ideological affinity among the governments in the Cono Sur. They are also in favor of constructive cooperation in advancing the Mercosur process, strengthening UNASUR and expanding the south-south cooperation beyond the region.

Regional cooperation

After her electoral victory, President Fernández devoted, in accordance with her campaign pledge, more attention to foreign policy, continuing to maintain close ties with other Latin American countries such as Brazil and Venezuela, while at the

same time ties with Washington remain strained. The most contentious issue was the construction of a \$1.2 billion pulp mill on the Uruguayan side of the river Uruguay, which constitutes the Argentine-Uruguayan border. This conflict between the two Mercosur partners has not yet been resolved. Both countries asked the International Court of Justice for an opinion on whether the plant's construction violated a 1975 Argentine-Uruguayan treaty dealing with its shared river. A decision is expected not until 2010. Bilateral relations were strained, in addition, by the Uruguayan government's announcement in October 2008 that it would veto former Argentine president Néstor Kirchner's bid to become secretary general of the Unión de Naciones Sudamericanas (UNASUR).

## Strategic Outlook

There has been no major progress in Argentina's transformation during the period under review, during which Cristina Kirchner ascended to the Argentine presidency on 10 December 2007. While Néstor Kirchner succeeded in regaining the trust of the Argentines and the international community, the high popular support he and his wife initially enjoyed – the so-called “K-effect” – did not translate into improved performance in democratic and economic institutions. Fortunately, there are no actors with anti-democratic veto powers. The drive of the new grassroots mobilization, which was a positive development for Argentina's participative democracy, decreased considerably with the recovery of the economy and a new wave of consumer spending. A part of these movements joined up with the protesting farmers' unions in the ongoing conflict with the government over the rise of export taxes. It remains an open question whether or not established political parties will manage over the long run to channel these new forms of direct political articulation and social protest in constructive directions. It is also uncertain whether the highly fragmented party system, with a hegemonic yet fragmented Justicialist Party (PJ), will be maintained, or whether a moderate multiparty system will emerge as a stable foundation for coalition governments capable of compromise.

Antagonism and patronage within the parties on the national and provincial level, as well as obstructive behavior, have not been eliminated. The relationship between the party establishment and society is problematic. An additional problem is that the leading personalities in the political parties obviously have not learned sufficiently from the systemic crisis of 2001-2002. The political game remains personalistic, populist and based more on personal loyalty and clientelistic networks than on strong and representative political institutions and constitutional rules. Since the conquest of the PJ presidency – and at least until the mid-term elections in June 2009 – the Kirchners have been the undisputed political leaders in the country, but the Peronist party remains splintered. The PJ's fragmentation and the non-Peronist party spectrum, as well as the maintenance of clientelistic networks and personal rivalries, impede innovative learning processes among the political elite. Whereas the unification process of opposition forces has just begun, the internal battle for leadership within the Radical Civic Union (UCR) remains undecided. Both Kirchner's strategy of “transversalidad” and Fernández's coalition policy, which was moderately successful initially, have failed. The relationship between the central government and the provinces remains precarious; some governors joined up with the farmers' protest movement, which found growing acceptance within the population. The combination between parties, organized power in the provinces and the lack of internal democracy favors clientelism and only permits ad hoc coalitions. One positive factor in a society with a traumatic past is the fact that the government has resolutely confronted the past and repealed the Due Obedience and the Punto Final laws as unconstitutional, thereby paving the way for criminal prosecution of all cases in which amnesty was granted.

A major unresolved problem facing the Argentine economy is inflationary pressure caused by the restructuring of pricing structures and a swift growth in demand that may lead to supply bottlenecks. The instruments used to control inflation include sector price agreements, setting export limits on certain mass consumer products and investment incentives. The future inflation rate will also depend on the development of wages and the negotiation of utility rates with privatized firms and public service providers. A strong trade surplus and high growth rates since 2003 resulted from the reinforcement of internal investments and consumption, high prices for minerals and agricultural products in the world markets, a weak dollar and strong demand from Asian economies, especially China. However, all of this has begun to change since the financial crash in the U.S. banking system.

The growth projections of the international finance institutions for Argentina oscillate between 0% and 5% of GDP for 2009. The debt burden was substantially reduced, but a large part of the debt problem remains unresolved. Structural problems, such as a sustainable poverty reduction, energy supply and a science-based production structure, are still unresolved; industrial, technological and educational infrastructures advanced, but insufficiently so; and the cooperation between the productive sector, national and local governments and the scientific community, compared with other emerging countries, remains low. Certainly, impoverishment of the middle class and a massive brain drain has depleted the country's reservoir of reform energy and removed potential agents of change.

It is still an open question as to whether the demands of the economically and socially excluded will be radicalized or channeled into concrete policy options by the political parties, especially the hegemonic PJ, and whether the existing gap between a rich minority and an impoverished majority can be reduced in the long run. Isolated presidential decisions, based on presidential decrees and high popular support, can neither compensate for the deficient articulation, channeling and aggregation capacities of the political parties, nor can they serve as a substitute for a parliament that takes its legislation and control functions seriously. Crisis and institutional weakness tend to be mutually reinforcing, a dilemma which may be called the "Argentine disease." After Cristina Fernández lost her majority in Congress in the mid-term elections in 2009, this new Congress might move to strike down the superpowers to bypass Congress, such as the "decrees of necessity and urgency" (DNU). This would restore the balance of power, which has been heavily concentrated in the executive branch ever since Néstor Kirchner pulled Argentina through the post-traumatic stress of the 2002 financial debacle.