

BTI 2016 | Argentina Country Report

Status Index	1-10	6.65	# 34 of 129	
Political Transformation	1-10	7.55	# 28 of 129	➔
Economic Transformation	1-10	5.75	# 64 of 129	➔
Management Index	1-10	4.78	# 71 of 129	
	scale	score	rank	trend

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2016. It covers the period from 1 February 2013 to 31 January 2015. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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Key Indicators

Population	M	43.0	HDI	0.808	GDP p.c., PPP \$	-
Pop. growth ¹	% p.a.	1.0	HDI rank of 187	49	Gini Index	42.3
Life expectancy	years	76.2	UN Education Index	0.783	Poverty ³	% 3.6
Urban population	%	91.6	Gender inequality ²	0.381	Aid per capita \$	0.7

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | UNDP, Human Development Report 2014. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.10 a day at 2011 international prices.

Executive Summary

Thirteen years after the system crisis of 2001 – 2002, the prospects for achieving sustainable political and economic development in Argentina remain unpromising. The political process continues to be characterized by zero-sum power games based more on populism, personal loyalty and clientelistic networks than on strong and representative political institutions or constitutional rules. Despite a comparatively advanced level of development, political institutions, the economic order and the welfare regime are mostly subordinated to these power games. Under these circumstances, reform actors from civil and political society repeatedly fail to achieve their goals, while political elites both in government and opposition are incapable of building consensus on needed reforms. Judged against its considerable political, economic, cultural and human-resources potential, Argentina remains one of the most disturbing underperformers in the areas of transformation and development, largely due to its failures in institution-building.

In October 2011, incumbent Cristina Fernández de Kirchner won a landslide victory in the presidential elections with a 54% vote share in the first round. Notwithstanding her historic victory, she proved either incapable or unwilling of using her victory to push through necessary structural reforms. Instead, the political strategies pursued by the government and the opposition focused mainly on maintaining or subverting political power. Weaknesses in the country's economic institutions were no longer counterbalanced by socioeconomic successes. On the contrary, growth rates declined, inflation rose, and the economy entered into a vicious circle of inflation, decreases in production, capital flight, deterioration of the trade-balance and competitiveness, and – as a consequence of these other factors – a resurgence in strikes and social protests. The import and export restrictions and “pesification” of the economy implemented in 2013 sent the country into a downward spiral. The cut in subsidies and wages failed to eliminate inflation, but reduced internal demand. All this discouraged foreign investment and curtailed domestic production, putting pressure on employment levels and thus endangering the most prominent success ascribed to Kirchnerism.

In early 2014, the government first engaged in more orthodox economic policies by devaluing the peso and tightening monetary and fiscal policies, and also tried to improve relations with the international financial community. However, a few months later, the country defaulted on its debt obligations, and the market-friendly policies from early in the year gave way to populist discourse, triggered by a U.S. court ruling, and the economy continued to slump. The default, which the government refused to accept, contributed to an increase in capital outflows. Consumption and industrial output fell, and unemployment rose. However, the default did not have a catastrophic effect. The government offered new credit plans in a move to drive consumption, for example, of car purchases. It also agreed to a tax exemption on end-of-year bonuses for workers, temporarily appeasing the trade unions' leaders and avoiding the social upheaval that had been expected in December 2014. In the final weeks of 2014, the government also maneuvered to stabilize foreign reserves, including a currency swap with China that pushed reserves above \$30 billion for the first time since December 2013.

Despite the government being damaged by several scandals of alleged corruption, charges of influence peddling and bribery in 2014, Fernández's approval ratings recovered in December of that year. However, in January 2015, they fell to only 28% as a result of her poor management of the scandal surrounding the mysterious death of prosecutor Alberto Nisman.

History and Characteristics of Transformation

Chronic instability was a key feature of 20th century Argentine history, culminating in a fierce military dictatorship between 1976 and 1983. When President Raúl Ricardo Alfonsín of the Radical Civic Union (Unión Cívica Radical, UCR) started his six-year term in 1983, Argentina finally seemed poised to enter a phase of political stability; however, turmoil soon broke out, leading to 13 general strikes and four army rebellions in just three years. After the failure of the Austral Plan in 1986 and the 1987 parliamentary election defeat, an escalating economic and political crisis emerged in the first half of 1989 that was marked by hyperinflation and political stalemate. This 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 succeeded in restoring growth to the Argentine economy and winning the favor of the nation's bourgeoisie, as well as of international creditors and investors. His government did so by establishing peso-dollar parity through the 1991 Convertibility Law, and by steadfastly pursuing a neoliberal stabilization policy. 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 (1995 – 1999). From 1990 to 1994, Argentina's overall growth rate averaged about 7.7% per year. However, financial crises in Mexico, Asia and Russia, as well as devaluation in Brazil, caused Argentina to slip into a recession in 1999. As a result of these developments, a Peronist government was voted out of office for the first time in Argentina's history in the 1999 elections.

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. The government failed to present a clear policy agenda to put the economy back on track, seemed unable to find solutions to the nation's grave social problems, and did not initiate a consistent anti-corruption policy. The crisis escalated, and in December 2001 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, the new government's first move was to end the monetary convertibility system. Within a few weeks, the economy fell into a full-scale recession, the banking system collapsed and economic activity ground 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. Finally, presidential balloting was rescheduled for 27 April 2003. In the first round of elections, Menem won 24.5% and Néstor Kirchner 22.4%. The oppositional Unión Cívica Radical (UCR) suffered a devastating defeat. Menem dropped out of the second round, handing the presidency by default to Kirchner.

Although Kirchner enjoyed approval rates of over 60%, in July 2007 he announced that he would not seek re-election; instead, he backed his wife, Cristina Fernández de Kirchner, who won the presidential elections in October 2007 thanks to the economic recovery and the lack of a united opposition, thereby becoming Argentina's first elected female president.

In practice, however, she governed in tandem with her husband, who remained Argentina's real power center. Fernández's strong political alliance and majority in Congress fractured when she clashed with the agrarian sector in 2008 over her administration's failed attempt to increase export taxes on certain farm products. The June 2009 mid-term election brought significant losses to the government coalition.

The sudden death of Néstor Kirchner in October 2010 deprived Kirchnerism of its uncontested leader and abruptly changed the political landscape, paving the way for Fernández's second term following the 2011 elections. However, the rapid economic growth of previous years began to slow sharply as government policies held back exports and the world economy fell into recession. Turnarounds in economic and foreign policy took place, which, in sum, contributed to a worsening of the economic and political situation of the country and its external perception. In the economic field, inflation accelerated, and import and export restrictions were reinforced. In addition, there was a continuation of the campaign against the media and the political instrumentalization of the judiciary.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

Transformation Status

I. Political Transformation

1 | Stateness

Question
Score

The state's monopoly on the use of force in principle prevails throughout the country and is not seriously disputed by functional organizations such as guerrillas or paramilitaries. However, organized crime related to drug trafficking has grown significantly over the last decade, as Argentina not only became the second-largest cocaine market in Latin America after Brazil, but also a transit point for drugs to West Africa and Europe. Money-laundering activities related to drug money have become a growing concern. Increasing levels of violent crime and the emergence of private security services today threaten to erode or even overwhelm the state's monopoly on the use of force in urban centers.

Monopoly on the
use of force

8

In addition, 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, or have even undermined it by opening security personnel to the temptations of corruption. According to the 2013 Latinobarómetro poll, 35% of Argentines are convinced that crime is the most important problem (average in Latin America: 24%). There are several factors behind the rise of criminality and public insecurity. One is the ongoing economic deterioration, characterized by rising inflation and unemployment. A second factor is that Argentina is increasingly becoming a transit corridor for illegal drugs passing from the Andean producer countries to Argentine ports. Drug-related violence is therefore on the increase in the northern border states, as well as in areas of high drug use, such as Buenos Aires. In the port city Rosario, the head of the city's police force and its anti-drug czar were arrested over their links with traffickers. In 2013, the most extended police strike since 1989 took place, which included 21 provinces. In addition, the recent corrosive internal conflicts within the intelligence services and the growing tension between the government and the Intelligence Secretary should be considered important challenges to the state's monopoly on the use of force.

The large majority of the population accepts the nation-state as legitimate. All individuals and group members have the right to acquire citizenship without discrimination. No relevant group in society challenges the definition of citizenship or the validity of the state's constitution. A potential source of friction remains the civil rights of indigenous people, including the Mapuche in the south and the Tobas and Kolas in the north, who together represent between 3% and 5% of the total population. Some 70 % of the country's rural indigenous communities lack title to their lands. Though land was returned to several communities under Néstor Kirchner, most land disputes remain today unresolved. Forced evictions have occurred, such as in Chaco Province. Indigenous communities have been prevented from exercising their right to free, prior and informed consent to projects involving the exploitation of national resources on indigenous land, such as the Qom community in Formosa. To date, however, while certainly a civil rights issue, this has not led to a challenge of state identity.

State identity
10

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 has authority in important issues. The political influence of the church has diminished further under Kirchner and Fernández. Néstor Kirchner and the Catholic Church clashed on issues including abortion, sexual education, human rights violations and poverty. Cristina Fernández's relationship with the Catholic Church has been strained due her outspoken support for same-sex marriage and the perceived leftism of her government's agenda. In November 2012, the Episcopal Conference distributed a document complaining about restrictions on free expression and "excessive caudillism," or a centralization of personal power. The document provoked a response by Vice-President Amado Boudou to the effect that nobody would be interested in such a complaint. The Argentine Episcopal Conference continues to be very critical in its documents concerning government policies.

No interference of
religious dogmas
10

The state's fundamental infrastructure extends to the entire territory of the country, but operates somewhat deficiently. The political administrative network and political parties administer public funds, but the distribution follows particularistic, clientelistic and nontransparent criteria. The weakness of the state and its institutions is especially apparent in its inability to prevent rampant tax evasion, which has been one of the population's long-term responses to the corralito (the freezing of bank accounts in 2001). The northern provinces are still burdened with longstanding economic difficulties. These nine provinces are home to about 20% of the population. Children in this region starve from malnutrition, in a country that exports foodstuffs. The government's cut in subsidies affected the poor provinces particularly hard. There are no federal policies promoting development in depressed regions, and there are very few employment opportunities outside the public sector. The state's weakness in supplying basic services has deepened, primarily in the provinces.

Basic
administration
8

2 | Political Participation

General elections are mostly free and fair, and are accepted as the appropriate means of filling leadership positions. Universal suffrage and the right to campaign for office exist. The electoral juridical body (Cámara Nacional Electoral) is integral part of the judiciary. It is not a separate body as in other Latin American countries, but is nominally independent in its decisions. Nevertheless, the distribution of public funds is asymmetric in favor of the ruling party coalition. There is also a certain media bias due to the use of national TV by the government. However, due to a strong and independent private media sector (with media titles such as Clarín and La Nación in sharp opposition to the government) this bias is overall somewhat limited.

Free and fair elections

9

With some notorious exceptions at the provincial level, governments respect the rules underlying open and competitive elections. Some isolated attempts to manipulate elections have been investigated and sanctioned, at least rhetorically. After the governing coalition's electoral defeat in the 2009 mid-term parliamentary elections, President Fernández promoted a political reform with substantial procedural changes that in sum served to strengthen her own power resources and limit her competitors' flexibility of action. The same package lowered the voting age from 18 to 16 years, a shift confirmed by Congress in October 2012. In July 2011, Fernández signed a decree creating open, simultaneous and obligatory primaries, which were held for the first time in August 2011.

Democratically elected political representatives generally have the power to govern. Nevertheless, in Argentina's under-institutionalized political system, individual power groups can at times create their own separate domains or enact special-interest policies. The success of these groups varies, however, depending on political cycles, and the phenomenon does not harm the democratic political process as such. Since the beginning of Fernández's second term, the government has had sufficient authority to govern, but the strongest labor organization, the Confederación General de Trabajo (CGT), has gained increasing power as a veto actor. Its political weight under the leadership of Secretary-General Hugo Moyano, the president of the powerful transporters' union, has been reflected in episodes of clear political defiance, such as the general strikes held in November 2012 and April 2014.

Effective power to govern

8

Relations between the government and Argentina's entrepreneurs have improved with the recovery of the economy, but continue to oscillate between mutual accommodation and a careful distance. The Kirchners' strategy of growth through the support of domestic industry has changed the relationship between state and business, making the government at times vulnerable to pressures from domestic business interests. In October 2014, the Argentine Industrial Union (UIA), the manufacturers' association, very strongly criticized the government's economic

model. Another challenge for the government is the financial sector, which pressed the government to devalue the currency, which happened in April 2014.

The third significant corporation, the military, is no longer a veto power in political affairs; its role has been reduced substantially since the beginning of the Menem administration and again since the beginning of Néstor Kirchner's government.

The rights of citizens to establish political and civic organizations and to assemble freely are generally respected. Civic organizations such as unions, business organizations and NGOs play a significant role in politics and society and are generally free from legal restrictions and political pressure from the state. Union influence, strongly undermined during the Menem era by neoliberal reforms, corruption scandals and internal divisions, gained negotiating power with the economic recovery (and the more flexible governing style under Cristina Fernández). Beyond the established forms of interest group articulation, there has been an emergence of basic organizations, self-help groups and other forms of self-articulation and protest. Watchdog organizations monitor and try to influence government policy on a variety of issues. However, their influence on the legislative process is modest in part because of the absence of a legislative agenda and of information regarding committee meetings. With a few exceptions, the government has reacted with flexibility, incorporating some movements or responding to their demands with jobs and/or material benefits. During its second term, the government's style was increasingly rigid and the trade unions divided.

Association /
assembly rights
10

Freedom of information and the freedom of speech are guaranteed by law and mostly respected in practice, though some significant shortcomings persist. Argentina is one of South America's leading media markets, with lively journalism. However, effective access and monopoly controls are absent, particularly in television, which is dominated by a few companies. Public broadcasting has not played a major role in the development of radio and TV. The non-transparent practices of government advertising contracts remain a problem at the federal level and in some provinces. According to Reporters Without Borders, journalists in some provinces risk being harassed by the police and courts. Some journalists working for the independent media have received threats.

Freedom of
expression
8

The governments' attempts to influence the media have grown since the Menem presidency. During Cristina Fernández's presidency, this hostility extended also to El Clarín, which in previous years had been considered a near-official organ of the government. Kirchner and Fernández both characterized critical media outlets and journalists as political opponents. A bill to regulate the broadcast media, approved by Congress in October 2009 and confirmed by the Supreme Court in 2013, aims to promote the diversity of views in media. In October 2010, commissions of the Chamber of Deputies approved draft legislation presented by President Fernández to regulate the company that produces and distributes paper used for newsprint in

Argentina. In recent years, the media war sparked by the government's effort to dismantle the Clarín Group intensified.

The state does not hinder free access to the Internet. According to the 2010 Latinobarómetro, 26% of Argentines - the highest rate in Latin America – claim they obtain information about political issues from the Internet. Freedom of cultural expression and academic freedom are generally unrestricted. Until now, no bill to ensure public access to information held by state bodies has been approved by Congress.

3 | Rule of Law

Since the 1990s, the balance of power between the three branches of government has clearly shifted in favor of the executive, resulting in a “presidential hegemony” continuing until the presidency of Cristina Fernández. The structural problems of divided government are exacerbated by a winner take-all political culture among the parties and the fact that political obstructionism rather than cooperation pays dividends. The use of executive decree powers has marginalized the role of Congress in formulating, scrutinizing and passing legislation, while undermining trust between the executive and the legislature. The legislature's key weaknesses are its largely nonprofessional staff and its little technical expertise. In addition, its committee system and oversight bodies are poorly developed. Few politicians have invested seriously in legislative careers. Under both presidencies, the government'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. The recent reforms in the judicial system have the objective of reducing the independence of the third power.

Some patterns of institutional manipulation continued under both Kirchner presidencies. Examples include the Magistrate Council, the still-valid 2006 “superpowers” law that grant the president vast discretionary authority over the budget, and the government's assault on the once-independent statistical agency, the National Institute of Statistics (Instituto Nacional de Estadística y Censos, INDEC). The control of the fiscal resources by the executive reinforces the dependency of provincial governors on the president. However, despite the concentration of power in the executive branch, the president remains constrained by provincial governors (the real power nodes within the Argentine political system), by civic organizations and the mass media as agents of “social accountability” and, last but not least, by a growing opposition both inside and outside the Peronist party.

Separation of
powers
5

Argentina's judiciary is institutionally differentiated and generally independent, but remains subject to strong influence from political authorities and plagued by corruption as well as insufficient functional capacity and efficiency. These problems are more severe at the provincial level where governors prefer to have a friendly court in place during their administration. The Kirchner governments have over time been increasingly resistant to comply with court-ordered obligations, as in the case of payment of pensions, the democratization of trade unions, various environment questions, the freedom of expression, and the separation of powers. However, the Supreme Court has gained in institutional stability and political independence during the Kirchners' terms.

Independent
judiciary

6

In April 2013, Congress approved three government reforms to revise Argentina's justice system. One law aimed at limiting individuals' ability to request injunctions against government acts. A second one reformed the composition and selection of the Magistrates Council, which selects judges and decides whether to open proceedings for their removal, thereby granting the ruling party an automatic majority. A central point of contention was the popular election of the representatives who make up the Magistrates Council (judges, lawyers and academics), who, until now, were elected by peers. In June, the Supreme Court declared some of these norms unconstitutional. Opponents defended the Court's decision as positive and emphasized that, despite its rhetoric on democratizing justice, the government did not speed up reforms, such as facilitating access to justice for the poor or reducing the costs and formalities of litigation, among other simple solutions.

The focus of a third reform package was the penal code. The bill would reduce penalties for severe crimes, such as human trafficking and drug trafficking, from 10 to 8 years, whereas eight out of 10 Argentines advocate more severe penalties. The reforms would also result in the inclusion of crimes against humanity, torture "by omission," rape within marriage, and environmental crimes in the Argentine criminal code. Finally, the project also permits the deportation of foreign criminals. These reform recommendations, overseen by supreme court judge Raúl Zaffaroni, have been criticized by opposition politicians for being overly lenient on criminals, as they would see life sentences and punishment for recidivism eliminated.

During the second term of Cristina Fernández, there was a deepening of the politicization of the judicial branch, which is actually divided into two groups, Justicia Legítima (Legitimate Justice) from the government faction, and the rest, who call themselves "independent." The suspicious death of prosecutor Alberto Nisman increased tensions within the judiciary and between judicial sectors and the government.

Corruption continues to pervade public institutions. Argentina has signed the Anti-Corruption Conventions of both the Organization of American States (OAS) and the OECD. It has also signed and ratified the United Nations Convention against Corruption and actively participates in the Mechanism for Follow-Up on the Implementation of the Inter-American Convention against Corruption. The country has strong anti-corruption regulation and two administrative organizations that work outside the orbit of the Justice Ministry, but this is offset by uneven enforcement and a weak judiciary. Political parties, legislators, the police and the judicial system are perceived as the most corrupt institutions.

Prosecution of
office abuse

5

Abuse of office by elected officials usually goes unpunished. Nepotism in the provinces, an 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 effective investigation. Illegal campaign financing and money laundering are crimes that go unpunished in Argentina. Nevertheless, two of the most spectacular cases of presumed corruption in the period under review are still under investigation: the case of Vice-President Amado Boudou, accused of helping a company to exit bankruptcy in 2010, when Boudou was minister of the economy; and the linkage between some hotels of the Kirchners' in Patagonia and a businessman under suspicion of money laundering, known as the main beneficiary of public works in Patagonia.

Finally, prosecutor Alberto Nisman accused President Fernández and other government officials of impeding investigations in the involvement of Iranians in the 1994 bombing of the AMIA Jewish association headquarters in Buenos Aires. According to Nisman's 300-page document, the government wished to exonerate leading Iranian officials suspected of involvement in order to "establish trade relations to mitigate Argentina's severe energy crisis, through an exchange of oil for grains." Since the unexpected death of Nisman on 19 January 2015, one day prior to his scheduled appearance before Congress, investigations have virtually stalled.

Civil rights and liberties exist, are guaranteed, and comprise equality before the law, equal access to justice and due process under rule of law. However, since both the police and the judiciary are politicized, corrupt, poorly paid and inefficient, legal action taken to remedy violations of these civil rights and liberties 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 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. The Argentine military and the police are resistant to government enforcement of human rights, and national and provincial governments have been unable to change the prevailing culture in the security forces, with repeated failures to reform police forces known to be corrupt and complicit in criminal activity

Civil rights

7

Another issue of primary concern for Argentines is public security, especially in Buenos Aires. Much of the increase in the level of violent crime as well as the marked increase in the perception of crime as a problem has been fueled by a growth in illegal drug use and by the complicity of high-ranking judicial and law enforcement authorities in the drug trade. Balancing public demands for security with the commitment to civil and human rights continues to be a challenge. The government has no clear policy for addressing this problem, leaving the task mainly to NGOs. There are national and local ombudsmen tasked with aiding citizens whose rights are violated by the state, but their role is de facto very limited for low-income and other socially marginalized people.

There is growing anti-Semitism and xenophobia against immigrants from the Andean countries and Asia. In many cases, the polarization between Kirchnerists and Anti-Kirchnerists defines the access to public employment. Although the participation of women in politics, guaranteed by the “cupo femenino” (women’s quota), is the highest in Latin America, salaries and conditions of work in the private sector are lower than those of men, and the number of women at the executive level is insufficient.

4 | Stability of Democratic Institutions

Democratic institutions, including the administrative system and the judiciary, have recovered step by step from the 2001-2002 crisis. However, their effective functioning today is not sufficiently guaranteed, and their interrelationships are not entirely smooth. Both Kirchners’ presidencies have been characterized by a significant concentration of executive power at the expense of other democratic institutions and the division of powers. Convinced that electoral majorities confer the right to govern without participation by the opposition, they have not tolerated external oversight. The loyal, but, since the October 2013 mid-term elections, very small PJ majority in both chambers gave President Fernández 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 their objection to it (negative agenda control).

The system of formal and informal incentives contained within the country’s political system ensures that obstruction of the government is more profitable for the opposition than cooperation. On the other hand, this behavior did not exclude the majority of the opposition from approving certain strategic government decisions, as, for instance, the nationalization of Repsol’s YPF oil and gas subsidiary and the private pension fund system AFIP. The electoral system has a similar constraint-producing effect. The rebirth of provincial power, linked with the weakening of the party system, has produced a redistribution of political power, with considerable

Performance of
democratic
institutions

6

consequences for governance. The “localization” and decentralization of politics emerged without the parallel development of a solid party system at the national level, and without institutional mechanisms that typically constitute a countervailing power to these centrifugal tendencies. Instead, electoral laws were changed as a response to the immediate needs of the prevailing political constellation.

All relevant actors in politics and society 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 undisputed. Elections are clean (with a few exceptions) and civil liberties are broadly protected, though the judiciary is sometimes considered more as an obstacle to government than a necessary element of checks and balances. Potential veto powers are comparatively weak. 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 three victories of the Front for Victory (FPV) in the general elections (2003, 2007, and 2011) and in mid-term elections (2005) were the product of opposition weakness rather than of incumbent abuses, as well as deriving from economic successes.

Commitment to
democratic
institutions
8

5 | Political and Social Integration

The party system is more or less stable due to the dominant role of the Peronist party. It is in parts socially rooted, and moderately fragmented and polarized. Volatility is also moderate. The traditional structures of Argentina’s party system, characterized by competition between Peronism (PJ) and Radicalism (UCR), were maintained during the Kirchner and Fernández presidencies, although the walls between the two camps have become increasingly porous. The electoral system favors the periphery at the expense of the urban centers, and Peronism and Radicalism at the expense of third parties. The Argentine democracy, with its rigid two-party nature, is therefore a cemetery for new parties.

Party system
6

Peronists and Radicals have survived thanks to their anchorages in the provinces, with Peronism having proved more successful due to its high capacity to reinvent itself every decade. Néstor Kirchner was the last Peronist able to unite the subdivisions of the party, and his loss leaves a fragmented Peronist movement. However, the electoral cost of this fragmentation is limited by the phenomenon of listas colectoras (fusion candidacies), in which multiple mayoral and governmental candidates support - and share a ballot with - the same presidential candidate. The UCR has been fighting for survival since the disaster of President de la Rúa in 2001, and remains in disarray. Opposition forces on both the left and right remain divided. None of the opposition parties that emerged in the wake of the UCR’s collapse have possessed a national organization or a significant activist base.

Smaller parties, such as the center-right Propuesta Republicana (PRO) and the more left-leaning Afirmación para una República Igualitaria (ARI), occupy various positions on the political spectrum, but are active only in certain provinces. Third parties have never established effective party organizations, and tend to be overly dependent on the popularity of a single leader (or small coterie of leaders). Since 2013, there has been a realignment in the party system. New alliances have formed at the provincial level, while coalitions on the national level are still very volatile and not definitively defined. The competition is between candidates, not between parties as stable, long-term organizations.

The existent network of associations reflects most social interests and is to some extent able to mediate between society and the political system. However, it is relatively fragmented and dominated by a few strong interests groups, above all business organizations and unions, producing a latent risk of pooling conflicts. After the 2011 elections, the relationship between the government and trade unions – particularly the CGT – worsened. The cash crunch has resulted in open conflict with the Peronist party machine. A three-week teachers' strike took place at the beginning of 2013, followed by a second 24-hour general strike in April 2014, organized by the trade union of transport. The deteriorated fiscal situation has prevented the government from the satisfactory resolution of other strikes, for instance by public employees in the provinces and two general strikes in August – one by the government-friendly General Confederation of Labor (CGT), the other by the opposition Central of Argentine Workers (CTA) under the leadership of Hugo Moyano. One consequence of this is that the unions have threatened the government with new protests. Starting in the 2015 election year, strikes were seen by the government as a political demonstration of support for the political enemy, rather than a genuine protest over wages.

The relationship with employers has worsened during the second term of Fernández, due to restrictive import measures and the commercial accords with China concluded in 2014, which have worried the industrial sector. The agrarian sector has resisted the government's tax policy in the midst of the fall of prices for its export products. Civil society has an important tradition of civic associations at the federal and provincial levels, which mobilize around public policies and sectoral and communitarian organizations. Many sectoral organizations were co-opted during the presidencies of the Kirchners. There are also a lot of informal social movements with a critical orientation that are capable of mobilizing crowds.

Interest groups

7

Approval levels for democratic norms and procedures continues to be high. According to the 2013 Latinobarómetro, support for democracy is strong and has increased in recent years, rising from 60% in 2008 to 73% in 2013. In general, citizens' approval is still one of the strengths of democratic consolidation in Argentina. Some 83% see democracy as the best governing system; 51% are very satisfied with democracy and 73% believe that democracy without parties or congress cannot exist (2010: 73%). The government approval rate was 43% in 2013 compared to 73% in 2006, 34% in 2008, and an average in Latin America of 49% in 2013. Only 30% are interested in politics and only 5.1% are willing to protest for higher wages and better working conditions, while 5.9% are willing to protest for improvements in health care and education.

Approval of
democracy
9

Political protests target the political class as a whole, but do not tend to call into question the constitutional framework. Mistrust toward democratic institutions, their ability to be representative and their performance has not disappeared. In general, there is a wide gap between acceptance of democratic institutions and judgments about their functioning. In 2013, 51% declared that the Argentine democracy has major problems and only 34% are convinced that the government can solve these problems within the next five years. About 64% stated that the government can solve the problem of crime and corruption, 69% the problem of poverty.

Civil society organizations had a remarkable impact during and after the 2001-2002 crisis due to their voluntary human resource mobilization, but this effect decreased as the economy recovered and social programs targeting those most affected were ultimately implemented. Nevertheless, there are still a large number of associations, such as basic organizations, self-help groups and other forms of self-articulation and protest. The picture concerning trust is more contradictory. In regional comparisons, Argentina has long been considered a country with a high level of interpersonal trust (though not reaching the levels of the Nordic countries). For example, in the 2011 Latinobarómetro, 28% of respondents answered that one can trust in the majority of people. In recent times, however, trust seems to have eroded. The June 2014 Observatorio de Capital Social survey indicates that only 10% think that one can trust other people (down from 19% in September 2013). Conversely, trust is high only with respect to family and friends, and, to some extent, neighbors. In addition, while 50% responded that laws should be obeyed, about 85% hold that Argentines do not adhere to the law, or only do so to a lesser extent. Nevertheless, some qualitative (though not representative) studies indicate that there is indeed a considerable level of trust in local communities. In addition, Argentines have recently demonstrated a considerable ability to participate in collaborative consumption, showing at least that distrust in others may be not as generalized as assumed.

Social capital
7

II. Economic Transformation

6 | Level of Socioeconomic Development

Question
Score

Socioeconomic
barriers

7

Key social indicators, which dramatically worsened between the second half of the 1990s and 2003, improved with the economic recovery in the subsequent years. According to the UNDP's Human Development Index (HDI) 2014, Argentina was ranked 49th out of 168 countries with a score of 0.808, categorized as a country with high human development, and clearly above the regional average of 0.740. However, when the value is discounted for inequality, the HDI falls to 0.680, a decrease of 15.8%, due to inequality in the distribution of the three dimension indices (inequality in life expectancy at birth; inequality in education; inequality in income). Inequality could be balanced during the six years of growth only partly. In 2013, poverty affected 27.5% of the population (about 12 million people), and indigence 5.1%. Informality affects one third of the population over 18 years. Inequality in terms of education, health, and housing persists between provinces and between social strata. The Gini coefficient is 0.420.

Since 2013, there has been a growing gap between the inflation rate and wage increases for most economic sectors. Income inequality and the scope of the subsistence economy remain 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 coefficient increased sharply in the 1990s, and continued until 2003. This trend reversed until 2008, but has been increasing since then. Exclusion based on gender, religion and ethnicity plays a minor role, at least compared to most other Latin American countries.

Economic indicators		2005	2010	2013	2014
GDP	\$ M	222910.8	462843.8	622058.0	540197.5
GDP growth	%	9.2	9.5	2.9	0.5
Inflation (CPI)	%	-	-	-	-
Unemployment	%	10.6	7.7	7.5	-

Economic indicators		2005	2010	2013	2014
Foreign direct investment	% of GDP	2.4	1.7	1.8	1.2
Export growth	%	12.4	14.0	-4.0	-8.1
Import growth	%	16.1	34.8	3.6	-12.6
Current account balance	\$ M	5273.8	1359.6	-4696.2	-5069.1
Public debt	% of GDP	71.2	39.2	40.2	45.3
External debt	\$ M	128186.0	120791.3	136271.9	-
Total debt service	\$ M	10099.8	14467.3	13512.5	-
Cash surplus or deficit	% of GDP	-	-	-	-
Tax revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	10.3	13.1	15.6	15.7
Public expnd. on education	% of GDP	3.5	4.6	-	-
Public expnd. on health	% of GDP	3.7	4.2	4.9	-
R&D expenditure	% of GDP	0.46	0.62	-	-
Military expenditure	% of GDP	0.8	0.7	0.8	0.8

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | International Monetary Fund (IMF), World Economic Outlook, October 2015 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2015.

7 | Organization of the Market and Competition

The foundations of a competitive market economy are by and large assured, but the rules governing market competition are not consistent or always uniform for all market participants, and corruption is pervasive. The importance of administered pricing grew over the course of the 2000s as the government introduced price controls for basic goods and services and periodic controls on exports in its effort to fight inflation. In 2011, the government announced that clearly profitable sectors of the economy (banks, insurance companies, telecom companies, gaming businesses and extractive industries) would no longer benefit from heavily subsidized energy rates. Oil and mineral exporters were told to sell the dollars earned from export revenues in the local market. Foreign companies and investors are not subject to discriminatory regulations in the areas of market entry and exit or tax regimes. However, foreign investment is prohibited in various sectors.

Expropriation or nationalization is only allowed for public purposes and requires payment of compensation at fair market value. This rule did not prevent the

Market-based
competition
5

government from nationalizing Repsol's YPF energy subsidiary in April 2012 without prior announcement, and subsequently delaying its payment of compensation until 2014. This action, combined with import limitations and currency controls, has formed part of an interventionist, protectionist economic strategy that President Fernández's government says is needed to boost national industry.

The 2014 Heritage Foundation Index of Economic Freedom ranks Argentina 166th (2012: 160th) out of 178 countries, reflecting substantial declines in investment freedom, business freedom, labor freedom, and the management of government spending. As a result of the aforementioned government policies, many local and international firms based in Argentina have left the country or have put a hold on plans for expansion and the adoption of new product lines until the economic climate and regulatory regime become clearer and more consistent and predictable. State intervention increased during the second term of Fernández's presidency, thus contributing to the accelerated decline of the economic situation. This tendency is confirmed by the Global Competitiveness Report 2014–2015, which ranks Argentina 104th out of 144 countries (compared to 84th in 2011–2012). Informal sector employment in 2014 was estimated between 46.8% (ILO) and 33.6% (official figures).

Anti-monopoly policies exist but are executed within a weak institutional framework and are very inconsistently enforced or even politically instrumentalized. The formation of monopolies and oligopolies and increasing market concentration during the 1990s led to the passage of a new antitrust law in 1999. However, the implementation of effective antitrust policies has encountered severe obstacles over time. The 1999 law provided for the creation of a new, independent antitrust tribunal, which has not yet been put in place today. Instead, the agency created by the former Antitrust Law, the National Commission for the Defense of Competition, is still responsible making recommendations on all mergers and antitrust issues, with the government issuing the final decision on these matters. The government has justified its refusal to create the Tribunal for the Defense of Competition with the argument that such an organization would be incompatible with the creation of large firms able to compete at the regional level. The government claims for itself the power to make decisions on sensitive competition issues, especially in strategic areas such as energy or media. In some cases, crony capitalism has favored the creation of new monopolies. According to the Global Competitiveness Report 2014–2015, the effectiveness of Argentina's anti-monopoly policy ranks 137th out of 144 countries. Argentina's Supreme Court declared constitutional certain clauses of the anti-monopoly broadcast law that required the Grupo Clarín media conglomerate to divest itself of some of its units. However, at the same time, the media law favors the government's control of the media and creates new monopolies through crony capitalism.

Anti-monopoly
policy
5

Foreign trade is liberalized in principle, but several exceptions remain, including differentiated tariffs and privileges for some domestic sectors or industries. Within the Mercosur area, approximately 99% of goods are traded without tariff restrictions. Nevertheless, there are multiple protectionist measures in place, as well as ongoing 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. Economic disruptions have been caused by the foreign exchange and import restrictions imposed by the government since late 2011. According to the 2014 Heritage Foundation Index of Economic Freedom, Argentina's weighted average tariff rate is 5.6% (2008: 5.3%), indicating somewhat distortive tariffs, and trade freedom ranks 134th out of 178 countries. The Global Competitiveness Report 2014–2015 ranks Argentina 143rd out of 144 countries with respect to the prevalence of trade barriers.

Liberalization of
foreign trade

5

During 2013, the government expanded formal and informal measures to restrict imports, including a requirement for the preregistration and pre-approval of all imports. The preferred policy of "import substitution" is another example of many non-tariff barriers to trade. In November 2014, the government created a new agency for foreign commerce and capital flight control. The trade surplus is one of the pillars of the current government's economic model, however, the balance of trade has deteriorated continuously since 2013. The move from convertibility to a managed floating exchange rate regime, along with high commodity prices, lifted the value of exports to record levels from 2003 to 2010. However, this trade surplus decreased in the first quarter of 2014 to its lowest level since 2000. The decay of export earnings was also caused by the dramatic fall of soya prices on the world market in 2014. Foreign sales of manufactured goods are promoted by means of a number of incentives, including tax refunds, and by maintaining free trade zones and a Special Customs Area in Tierra del Fuego. The government also introduced phytosanitary rules, quotas and anti-dumping investigations to protect domestic products from competition from imported goods. Argentina is member of the WTO. In 2014, the government protested against a critical WTO report with regard to Argentina's import restrictions.

Argentina's banking system and capital markets are relatively well differentiated, but foreign banks are the only ones that are internationally competitive and meet international standards. Supervision of the financial sector is carried out by the central bank (BCRA), the Superintendence of Financial Entities (SEFyC) and the Superintendence of Insurance (SSN). Supervision works moderately well, but shortcomings in the regulatory and supervisory framework remain. The legal framework for insolvency is the Argentine Bankruptcy Law of 1955 (Law No 24.522), which provides both liquidation and reorganization options. This has helped reduce the duration and cost of bankruptcy procedures. Banks remain susceptible to broad fluctuations because of their significant dependence on external capital.

Banking system

6

Privatization and liberalization brought mergers and oligopolistic formations, as well as company and bank collapses. Basel III capital standards were legislated in February 2013. Capitalization levels are widely viewed as sound. However, Standard & Poor's has doubts about the credit quality and risk-weighting in Argentina. In 2013, the bank capital-to-assets ratio was 12.1% (Chile: 8.1%; Colombia: 14.8%; Brazil: 9.3%). In 2014, the ratio of bank non-performing loans to gross loans was 2.1% (Chile: 2.2%; Colombia: 3.0%; Brazil: 2.9%).

8 | Currency and Price Stability

The Kirchners' approach to resolving inflation has been mainly one of putting out fires as they come up, with the introduction of ad hoc policies such as price controls for basic goods and services, and periodic controls on exports in an effort to stabilize prices for goods in the domestic market. While official statistics put the country's inflation rate below 10%, independent economists emphasize that these figures grossly understate consumer price increases and that the real figures were between 30% and 40% in 2014 (2010: 25%-30%). 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. The government's attempts to bring the inflation down through a combination of tighter fiscal policy and a "social pact" that seeks agreement 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. However, this strategy cannot succeed in an economy with shrinking export earnings, reduced foreign exchange reserves and signs of recession.

In principle, the central bank has been independent since the reforms in the 1990s. Confronted with decreasing reserves, the government has provoked several conflicts with the central bank since 2009, using parts of the reserves for debt servicing. This was prohibited by law, but Fernández issued a decree to remove the bank presidents. The background to the repeated political interference in central bank politics was - beyond of the need to pay foreign debt interest rates - Fernández's complaint that the central bank does not sufficiently control currency attacks by the banks. After her impressive re-election victory in October 2011, Fernández surprised observers by introducing strict controls on the foreign exchange market in an attempt to keep the U.S. dollar/peso exchange rate stable, as well as to curb the increasingly worrying levels of capital flight.

Anti-inflation /
forex policy

4

The government's fiscal and debt policies seek to maintain macroeconomic stability, but lack institutional safeguards. There are no political or institutional bulwarks against risky populist policy changes. President Fernández has exercised a great deal of discretionary power over budget decisions in a manner unaudited by parliament or other agencies.

Macrostability
5

Economic growth in Argentina from 2003 to 2009 was comparable to that seen in China. In 2010, the economy rebounded strongly from the brief 2009 recession, but has slowed since late 2011, the beginning of Fernández's second term, as the world economy fell into recession. The government held back exports, expanded formal and informal measures to restrict imports and continued with expansionary fiscal and monetary policies. In July 2013, the government reinforced currency controls in order to stabilize foreign reserves and contain capital flight. In the first quarter of 2014, the government devaluated the peso by 20%, substantially tightened monetary and fiscal policies, and took measures to mend ties with the international financial community. These measures included engaging with the IMF to improve its economic data reporting, reaching a compensation agreement with Repsol for the expropriation of YPF, and presenting a proposal to pay its arrears to the Paris Club. However, the government defaulted in June 2014 on its debt obligations in a battle with the so-called holdouts. Market-friendly policies early in the year gave way to populist discourse after the default, triggered by a court ruling in New York, and the economy continued to slump. Local and foreign investments continued to decline along with the export surplus and reserves (which had served to give Argentina a cushion against falling export prices or volumes) and the fiscal situation worsened.

9 | Private Property

Property rights and the regulation of property acquisition are defined in principle, but practical enforcement in accordance with the rule of law is problematic due to deficiencies in the judicial and administrative system, including government interference. As a consequence, property rights are not adequately safeguarded against political intervention, and many foreign investors have been forced to resort to international arbitration. Argentina is a member of the WTO and the World Intellectual Property Organization. However, patent protection remains an ongoing problem, and the incidence of software piracy is increasing. In the International Property Rights Index 2014, the country ranks 83rd (out of 97) scoring 4.4 on a scale from 0 to 10. For the region, this score is only ahead of Paraguay (4.1) and Venezuela (the global bottom of the table with 3.2). Similarly, the Global Competitiveness Report 2014-2015 ranks Argentina 138th out of 144 concerning the protection of property rights.

Property rights
6

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. Significant local industrial segments were bought by foreign firms. Privatization was accompanied by a series of corruption scandals and several undesirable side effects, including mergers, monopoly formation, and negligence of local demand (e.g., in the energy sector). The crisis of 2001-2002 motivated the government to freeze the tariffs of services provided by 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 ending the dollar-peso parity. As a reaction to the lack of investment by foreign companies, the Kirchner governments declared that all contracts would henceforth be subject to revision, reversed the privatization trend of the previous years, revoked some concessions and nationalized some public services.

The most spectacular cases of renationalization under Cristina Fernández's government were those of the Aerolíneas Argentinas airline in September 2008, and of 10 pension funds two months later. In the latter case, the law exhibited ambiguities and juridical gaps, giving the government a lot of room to engage in discretionary decisions. In April 2012, the YPF energy company, which was 51% owned by Spain's Repsol, was renationalized without prior warning, and – unlawfully - without compensation. This abrupt decision provoked intense national and international debate, reinforced doubts as to the security of investing in the country, induced a diplomatic conflict with Spain and was another step toward Argentina's international isolation. In 2014, Repsol received compensation. Under the decree restricting access to dollars, firms are unable to transfer their profits home, producing another disincentive to investment. From a financial perspective, the (re)nationalizations were not always profitable transactions. For example, the subsidies the state had to pay the Aerolíneas Argentinas airline in 2014 amounted to around 11.4 million pesos (about \$135,000) per day.

10 | Welfare Regime

Social safety nets are developed to some degree, but do not cover all risks for all strata of the population. Today there is a mixed and rather fragmented welfare system that includes public, private and corporate entities. Despite unprecedented fiscal health, the two Kirchner governments never invested heavily in conditional cash transfers or health and education programs for the poor, as did the center-left governments of Brazil and Chile. Despite the government investing an annual \$1,350 per person in health care, 30% more than Costa Rica and Chile (countries with a comparable income per capita), these two countries achieve better results. One cause of the poor performance is the lack of a national plan of health and a well-articulated strategy of health. Additional problems include the fragmentation of health management, bottlenecks in financing and, finally, ineffective mechanisms of coordination.

Private enterprise
7

Social safety nets
6

Social programs such as the Jefes y Jefas de Hogares program were scaled back and frequently misused for political objectives or to the benefit of clientelistic networks. However, program targeting has improved under Fernández's second term. Social programs have increasingly been incorporated in employment programs, blending labor-market and poverty-prevention policies. All social programs have benefited from a general discontent with the neoliberal reforms of the Menem era, increasing technical expertise in the ministries responsible for social policies, and a fiscal surplus created by increased external demand. A portion of the social programs were additionally financed by the \$23 billion in revenues associated with the renationalization of the pension funds.

This said, social protection in Argentina does not sum to a coherent system, but is rather a collection of individual interventions and isolated programs that cannot replace a structural social policy. With the deteriorating economic figures during the second term of the Fernández government, the need for social programs increased again as the fiscal surplus disappeared.

Argentina does possess institutions and programs designed to compensate for gross social differences, but they are highly dependent on political cycles and are limited in scope and quality. There has not been a real commitment (rhetoric aside) to equalizing citizenship with social welfare through the development of welfare state institutions. The socially disadvantaged, poor women, indigenous peoples and immigrants do not have equal access to public services. Women have equal opportunity in terms of education and participating actively in politics. Argentina has one of the highest rates of female political representation - 37.7% of parliamentary seats are held by women – however, women also represent the segment of the population most affected by labor market problems, and are therefore disadvantaged in the economic and social sphere. Female participation in the labor market is 47.3% compared to 75.0% for men. The Fernández government has begun to address these problems, but clear-cut policies have not yet emerged. In the 2014 HDR Gender Inequality Index, which reflects gender-based inequalities in three dimensions (reproductive health, empowerment, and economic activity), Argentina had a 2013 value of 0.381, placing it 74th out of 149 countries. Some 57.0% of adult women have reached at least a secondary level of education compared with 54.9% of their male counterparts. For every 100,000 live births, 77.0 women die from pregnancy related causes, and the adolescent birth rate is 54.4 births per 1,000 live births.

The gap between education and the requirements of the 21st century labor market begins with the secondary school. Some 58% of the Argentine labor force between the ages of 25 and 64 have not completed secondary school. Some 75% of those not completing secondary school are members of poor families. In sum, Argentina is in a vicious circle of decadent education and social exclusion.

Equal opportunity

7

11 | Economic Performance

Argentina's economic recovery from 2003, only briefly interrupted in 2008-2009 period, enabled the government to accumulate substantial official reserves. Economic growth was first driven by private consumption and investment, and since the second half of 2009 by the increased prices of Argentina's central export products on the world market. However, since 2011, growth has shown a downward trend, to 0.9% in 2012, 2.9% in 2013 and -0.2% in 2014 according to CEPAL. As inflation accelerated, the remaining demand for state subsidies to maintain artificially low prices for public utilities, such as transportation, fuel, and food, could not be fulfilled by the government because the fiscal surplus disappeared, converted step by step into deficit. Salary increases for state workers and pension rises remained under the inflation rate.

The poverty and employment rates are trending upwards and are much higher than the official figures suggest. The rates of (local and foreign) investment and savings are increasingly weak. International reserves decreased dramatically from more than \$54 billion (2012) to \$28 billion in 2014, substantially reducing the government's capacity for action. The decline in growth since May 2012, along with falls in production and employment levels, a rise in inflation rate, and the gap between the official and black-market exchange rates, are signs of increasing macroeconomic imbalance. Investment and saving rates are still relatively weak due the scarcity of dollars and ongoing capital flight. Susceptibility to external shocks remains high. Until the beginning of 2014, it was difficult to imagine that a problem in servicing debt would occur, and default seemed to be out of question. This changed in June 2014, when conflict with the holdouts escalated and the country came to a technical default – with a still-uncertain solution.

12 | Sustainability

Argentina faces significant challenges in relation to the preservation of its natural environment. Among them are (1) the expansion of genetically modified soy cultivation, contributing to the degradation and erosion of the soil, a loss of biodiversity, deforestation, and significant water contamination (as well as being accompanied by violent land-use conflicts); (2) pollution (especially water pollution), with urban areas affected by harmful water-disposal practices, and rural rivers polluted by increasing use of pesticides and fertilizers; (3) the overexploitation of mineral resources (again accompanied by violent land conflicts); (4) erosion due to the inadequate flood controls and inappropriate land-use practices; (5) the deterioration of irrigated areas, and desertification. Though the goal of sustainable development was incorporated in Article 41 of the 1994 constitution as the "polluter pays" principle, environmentally compatible growth receives only sporadic

Output strength
5

Environmental
policy
5

consideration and has a weak institutional framework. Over the past two decades, Argentina has put legislation in place to regulate most of the existing environment problems, and several provinces have included environmental concerns in their constitutions. Nonetheless, existing environment laws are often not enforced due either to budget constraints or a lack of adequate oversight mechanisms. In addition, the current allocation of environmental responsibilities to numerous national, provincial and municipal agencies undermines policy coherence, enhances the risk of overlapping jurisdictions, weakens oversight mechanisms and is conducive to low compliance levels. 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. According to a ranking by Infolatam of the “greenest” countries in Latin America, Argentina ranks 15th out of 19 countries. Only 3.8% of the energy used is renewable - 89% comes from oil and gas.

Under the Kirchner governments, public expenditure for education and research increased substantially, reflecting the conviction of both presidents that science and research are fundamental pillars for the recovery of the national economy. In 2011, public expenditure on education was 6.3% of GDP, and R&D expenditure 0.65%. Nevertheless, the system remains underfunded.

Education policy /
R&D

6

In Argentina, all children between the ages of six and fourteen have to go to school. Free education is available to everyone. In the Global Competitiveness Report 2014-2015, Argentina ranks 61st out of 144 countries in primary education enrollment, 65th in secondary education, 15th in tertiary education, and 76th with respect to Internet access in schools; however, it ranks only 102nd concerning the quality of primary education, and 113th concerning the entire education system. Argentina has the second-highest rate of literacy in the region, with an illiteracy rate of 2.4%. Despite shortcomings in reform, the foundations for a modern educational system exist. As noted in the Program for International Student Assessment (PISA) study, the government spends considerable amounts of money in the education sector, but the results are modest. Dropout rates in public primary schools have been steady since 2003, and enrollment rates at the secondary level are both comparatively low and unequal. The structures necessary for efficient school-system administration have only been developed in a few provinces, and the widening quality gap between rich and poor provinces is disturbing. The education system suffers from low quality and salaries, as well as deep inequalities between the federal states. Some 70% of scientific personnel are concentrated in only three provinces: the federal capital, Córdoba and Santa Fe. The province of Buenos Aires is particularly severely disadvantaged by the uneven distribution of financial resources.

At the university level, Argentina is in third place in Latin America (after Brazil and Chile) in terms of research expenditure, but is very far from reaching a level comparable to that of OECD countries. The private sector was responsible for 39%

of this expenditure, complementing the efforts of the government. However, the majority of national enterprises focus on increasing profit rather than innovation. A positive sign from the perspective of growing competitiveness is that the investments in science and engineering and the international cooperation in these fields have increased substantially in recent years.

The percentage of individuals attending and completing university degree programs is 3.2% of the population, the second highest in the world after France. With 2.38 researchers for every 1,000 economically active individuals, the country is in first place in Latin America. It is also the only country in Latin American with as many as five Nobel Prize winners. Some 84% of researchers work in public institutions and only 16% in the private sector. However, the collaboration between the government, the universities and the industrial sector remains underdeveloped.

The wretched state of the economy following the 2001 crisis resulted in a massive brain drain, which in turn has impeded the country's development opportunities even further. The number of graduates in proportion to the population is higher in Brazil and Chile, which have four graduates per 1,000 inhabitants compared to Argentina's 2.5 per 1,000 people.

Transformation Management

I. Level of Difficulty

Structural constraints on governance have been moderate since the political and economic recovery began in 2003, thus improving the conditions for government performance. However, since 2013, some of these indicators have demonstrated a downward trend. The international context has changed. The increasing strength of the U.S. dollar and the U.S. economy have attracted capital which, until now, was invested in emerging countries. The growth rate of China's economy has decreased and, as a result, so has its demand for soybeans - a central export product of Argentina. The European economy, an important export market for Argentina's agrarian products, remains in recession. Some of the external bondholders (the so-called holdouts) did not participate in the 2005 and 2010 debt restructuring and provoked a new default. A constructive solution of this conflict between the Argentine government and the holdouts is still not in sight. On the domestic front, the high growth rates of 2003-2008 have definitively disappeared, dollar reserves have decreased dramatically, the fiscal situation has worsened, inflation rates are threatening to run out of control and the economy has been in recession since the end of 2013. Democratic institutions continue to be weak, separation of powers disregarded by the government, and the rule of law undermined by corruption. Poverty and the informal economy in urban areas are once again on the rise and the educational sector is underfinanced. However, the majority of these negative internal trends are not of a structural nature but rather the results of government failures.

Structural
constraints

4

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 clout of civil society organizations has diminished. Nowadays, civil society groups are very fragmented and their objectives very diffuse. In the context of the 2001 – 2002 crisis, new civil society organizations such as the piqueteros – demonstrators that engage in public protests – emerged as important actors. Some of these new movements disappeared with the economic recovery; others were co-opted by the Néstor Kirchner government or joined up with the agrarian farmer unions in the conflict with the government over export taxes on

Civil society
traditions

4

agrarian products or with other unions. However, NGOs play an important role with respect to monitoring, influencing and in some cases obstructing government decisions on a variety of issues. They are generally free from legal restrictions and state pressure, but their influence on the legislative process is rather modest due to the absence of a legislative agenda or public information regarding committee meetings.

There are no severe ethnic or religious cleavages in Argentina. Division along social or ideological divides was moderate in the post-crisis years. However, society and the political elite are growing polarized, so reducing the bandwidth of the political spectrum of Kirchnerists and Anti-Kirchnerists. Citizen dissatisfaction has intensified since the beginning of Fernández's second term, particularly among the new middle class as the part of the population most affected by restrictive government measures and the economic downturn. In 2012, protests by the middle class were visible in mobilizations, street protests and occasionally violent riots. Comparable mobilizations also occurred in January 2015, in the form of protests regarding the mysterious death of prosecutor Alberto Nisman. In addition, two general strikes took place, the first on 20 November 2012, the second on 14 April 2014, following a three-week teachers' strike. In late 2013, when the Argentine police in seven provinces went on strike to demand higher salaries, criminals took advantage of the absence of police to carry out a new wave of looting of major stores in which a number of individuals were killed. Some 1,487 cases of looting were registered in 2013, representing the highest level of looting since 1989.

In March 2014, Mauricio Macri, mayor of the capital, was confronted with street protests. The participants demanded housing for all citizens, including the excluded people of marginalized districts. Street blockades have also increased. In 2013, there were four blockades a day in the capital alone, and more than five thousand across the whole country. In 2014, for the first time since 2012, social protests allied with unions such as those in the agrarian sector and the CGT.

Conflict intensity

4

II. Management Performance

14 | Steering Capability

Cristina Fernández initially promised to focus her government's activity on a few priorities, following and deepening the strategic line of her husband while setting new accents in infrastructure, social policy and in the area of foreign relations. She subsequently nationalized private retirement pensions worth \$25 billion in 2008, as the government needed money to fund its "national and popular model," characterized by "accumulation and social inclusion." However, Fernández has neither upheld her promise to strengthen political institutions nor provided a sound economic framework.

Hopes for a new political style and some policy corrections after the death of her husband have not been fulfilled. On the contrary, a growing isolation in the internal as well as in the external arena has been produced by Fernández's erratic and polarizing governing style, her assertion that all critical voices are simply traitors to the country and to the Argentine people and, as the recent conflict with the holdouts shows, the use of conspiracy theories. Her general strategy, the so-called model, represents a case of messianic caudillism rather than a development strategy, and is indeed reminiscent of the old import substitution strategy of the 1950s and 1960s.

Rigidity and ad-hoc reactions are the main features, not only in the domestic field but also in foreign policy. The necessity to react to the dramatic worsening of the economy and the growing isolation in the international arena, primary with respect to debt issues, has presented little room for strategic action and has driven the government to misguided ongoing short-term reactions and improvisation. Beyond the repeated citation of the so-called model, in recent years there have been no perceptible priorities that can be identified as guiding lines in Fernández's behavior.

The government is generally committed to democracy and a market economy, but has not really engaged in respective reforms, and has had only limited success in implementing its own policies. The implementation capacity was restricted or blocked by conflict with the farmers' unions, internal conflicts within the PJ, political miscalculations and a lack of internal governmental coordination. Only a few of Fernández's programs have been successfully implemented. The judicial reform and the media law, both justified by the government with good arguments, were finally instrumentalized for political objectives. Other political reforms, such as electoral (primary) and party reforms, have also only been pursued when they promised short-term political benefits.

Question
Score

Prioritization
6

Implementation
5

At the beginning of her second mandate, Fernández proclaimed that she would engage in a process of “fine tuning” as a response to the growing contradictions her strategies had produced up to that point. However, this was primarily rhetorical, and resulted only in a package of isolated adjustment measures without coherence, clear priorities or strategic direction. With the deterioration of the economic situation since 2013, the president has pursued only a reactive course, with uncoordinated and sometimes even contradictory measures. She has long-refused to reform the INDEC statistical agency despite repeated criticism from inside and outside the country over incorrect inflation figures. Some timid corrections were finally implemented in 2014.

Other tendencies – anti-inflation policies; import and export restrictions; no access to the capital market; the government style of confrontation – further increased and had often contrary effects. The same can be observed with respect to foreign policy, which was largely subordinated to domestic policy. The country is more isolated today than in past years. The rigid behavior in the negotiations with the holdouts, which provoked a technical default, have contributed to this situation, as have the strong relations with some troublemakers in the international arena (Venezuela, Russia, Iran, and Syria). Recent commercial agreements and the non-transparent financial deal with China have binding long-term effects for Argentina and threaten to restrict its margin of action for years.

President Fernández has shown little willingness or ability to engage in policy learning; rather, she has remained stuck in routines that do not allow for innovative approaches. She began her presidency with a high rate of acceptance and the promise to produce “continuity in change” – a very ambiguous formula – as well as to cultivate a “culture of dialogue.” However, this promise of dialogue went unfulfilled, as did expectations among Argentine citizens. As the agrarian conflict and other controversial issues (for example, the manipulation of INDEC statistics or the management of the conflict with the holdouts since June 2014) clearly demonstrate, her political behavior has become more and more authoritarian and inflexible. Her government has been primarily driven by tactical and short-term electoral and power-maintenance considerations.

The president is surrounded by a closed circle of functionaries consisting predominantly of young men from La Cámpora (the youth organization of Fernández’s Front for Victory coalition), a grouping which increasingly dominates the state machine. The majority of her consultants are young and do not possess the necessary experience – their selection was based primarily on political criteria and loyalty. In sum, Cristina Fernández has either continued in the same manner or performed more poorly. She has not learned from past experiences or from observation and/or knowledge exchange through international cooperation.

Policy learning
4

15 | Resource Efficiency

The Fernández administration used only a part of its available resources efficiently. The main problems with the efficient use of resources are the president's discretionary power with respect to budget issues and the way in which public servants are appointed. Financial auditing remains insufficient. Neither the planning nor the implementation of the national budget is transparent. 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 parliamentary approval. This practice is used above all in the lead-up to elections. Combined with a consistent underestimation of state revenues in proposed budgets, this allows for additional expenditures of almost 30% that are subject to no external control. In effect, there is no trustworthy information as to the deviation between actual and planned budget expenditures.

The year 2012 was the first since 2003 to show a budget deficit (about 0.5% of GDP) despite a high overall growth rate. Since 2013, the central bank's dollar reserves have continuously decreased due to a lack of access to international financing, the reduced growth rate in China, the fall of world market prices for primary products (and the resulting shrinking export earnings), and capital flight. The government continues to tap the central bank's dollar reserves and the nationalized pension funds in order to comply with its debt obligations, a much-criticized action. A positive step toward budget consolidation was the cut of some subsidies by decree since the beginning of Fernández's second term, above all in the transport, water and electricity sectors.

There is neither efficient use of government administrative personnel nor an efficient administrative organization. Though civil service positions are meant to be assigned through merit-based competition, non-competitive recruitment is widely used to bypass the system. Many jobs in the public sector are the result of machinations within clientelistic networks, especially at the province level. At the top level there are erratic and sometimes abrupt personnel changes. The influence of the La Cámpora youth grouping is apparent and has not yet been stopped. In the diplomatic service, the government has relied on clientelistic appointments rather than career diplomats. Another emblematic case has been the politicization of the National Institute of Statistics (INDEC); here, the government replaced skilled technical staff with political appointees in order to manipulate inflation and other macroeconomic data.

Efficient use of
assets

5

The Fernández government has attempted to coordinate conflicting objectives and interests, but has achieved only limited success. The president's usual response to conflicts with cabinet or party members is to make a decision from above – usually issued by decree – or to avoid decision altogether. Fernández prefers to govern with a restricted group of confidants both inside and outside her cabinet. Her actions are not coordinated either with members of her cabinet or with her PJ faction. Potential internal government friction has been nipped in the bud by both Fernández and her husband. The real problem of policy coordination, however, is that the president does not have a clearly defined policy program, but instead pursues short-term and in the end rather contradictory goals. Her government style is noticeably marked by improvisation and unpredictability rather than by thorough coordination. Neither inter-ministerial committees nor responsibilities are assigned transparently or clearly. Frictions and negligence of tasks are distinctive traits of Fernández's administration, particularly during her second term in office.

Policy
coordination
5

Although criminal prosecution of corruption appears to take a high priority in the eyes of the public, and was declared a top priority of both the Kirchner and Fernández governments, it continues to pervade Argentina's public institutions. Though anti-corruption laws, organizations and good intentions certainly exist in Argentina, the system as a whole is slow and toothless. Foreign investors complain about corruption in both government and the private sector. A 2014 OECD report describes Argentina as seriously non-compliant with key articles of the Anti-Bribery Convention. The report criticizes Argentina for its failure to pass legislation to punish companies for foreign bribery, for widespread delays in investigations into economic crime, and for executive contact with (and disciplinary processes against) judges and prosecutors, threatening their judicial independence. The group called on the government to promptly implement a new criminal procedure code, reduce the large number of judicial vacancies, and seriously investigate and prosecute all foreign bribery cases as appropriate.

Anti-corruption
policy
4

Anti-corruption activists have accused both the Kirchner and Fernández governments of stalling on their good-government agendas, particularly insofar as they have failed to ensure the effective functioning of administrative controls. The Anti-Corruption Office (Oficina Anticorrupción), which was created by the de la Rúa government and under which it enjoyed considerable independence, depends now on political will in order to initiate certain types of investigations. In addition, its authorities are appointed or removed by the president. Under the Peronist governments that have governed 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 consolidating democracy should be one of Argentina's development goal, although ideas about the obstacles to be addressed and the strategies that should be applied vary widely. In addition, apart from consensus on these basic goals, there is no agreement on how to eliminate defects in democracy or how to strengthen political institutions. Since 2001, the Peronist hegemony has provided for the maintenance of a "low-level equilibrium" in which dominant actors can be checked or defied only by other dominant actors, not by the rule of law. So-called "persons of confidence" constitute the inner circle of power and are considered to be more important than the cabinet, just as direct communication with the people is deemed more democratic than the use of intermediary institutions. The clout of the organized labor movement and its potential veto power underline the fragility of compromises made and the government's diminishing ability to meet demands after the death of Néstor Kirchner. Argentine society today is strongly polarized and split into Kirchnerists and Anti-Kirchnerists, and the political process is perceived as a zero-sum game. Fernández's preference for direct dialogue with the people (in fact a monologue) is an expression for her adherence to the concept of direct democracy and her disregard of all forms of a representative democracy based on rules and intermediary institutions.

Consensus on goals
8

All relevant political and economic actors agree that consolidating the market economy should be one of Argentina's long-term strategic development goals, although ideas about the obstacles to be addressed and the strategies that should be applied vary. Left-wing Peronists, under the leadership of the government coalition, a large part of the unions, and the center-left non-Peronist parties, prefer a national development strategy under the slogan of "autonomy and sovereignty," based on a strong, consumer-oriented internal market and protected local industry. In contrast, the center-right parties, export-oriented local and international firms and unions, and the agrarian sector focus on a world-market oriented and open economy, based on comparative advantages and strong investments in sciences and technology aimed at strengthening competitiveness.

The fact that 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 constitutional procedures are followed in principle can all be interpreted as signs of the maturity of Argentine democracy, especially in light of its dictatorial past. There are no relevant veto actors with an explicit anti-democratic agenda. Two important former veto powers – the military and the Catholic Church – have been seriously weakened as compared to previous decades. Agrarian unions fought strongly against the export taxes imposed by Cristina Fernández's government, but did not resort to violence as a strategy and are not motivated by anti-democratic ideologies. On the

Anti-democratic
actors
8

other hand, the power of the CGT and its leader Hugo Moyano has increased in recent years. Argentina's trade unions have never had a tradition of defending democracy as a political regime. Under Moyano's leadership, the unions are attempting to impose their partly anti-market strategies by illegal and even criminal means. The two general strikes in recent history, organized by the CGT in November 2012 and April 2014, were also supported by social movements, an informal coalition that some years ago appeared to be impractical. However, none of these actors have resorted to force. Informal power games inside and between party factions, corporate actors and social movements are primarily directed toward the preservation or attainment of power.

The political leadership prevents cleavage-based conflicts from escalating, though the government itself has occasionally contributed to the exacerbation of conflicts, above all with farmers, the Clarín and La Nación media conglomerates, and recently with the judiciary and factions of the secret service. The high level of conflict in the agrarian sector has forced Cristina Fernández to bargain more cooperatively than her husband. As pragmatic arrangements with the opposition have been necessary, the intensity of confrontation has decreased. On the other hand, the government's reaction to recent social protests and land occupations at the periphery of Buenos Aires was once again very rigid, though not violent. The same can be said with regard to the cacerolazo street protests in September and November 2012, and social protests and street blockades in 2013 and 2014, which were denounced by Fernández as a betrayal of the people by frustrated segments of the middle class. The recent "March of Silence" called by prosecutors was denounced by Fernández as a coup attempted by the judiciary. One of the sources of the growing polarization of Argentine society is Fernández's discourse, with distinctions between "us" and "the others," "fatherland" and "buitres" (vultures), "the people" and "oligarcas" (oligarchs). This polarization was further exacerbated after the mysterious death of prosecutor Alberto Nisman in January 2015.

Cleavage /
conflict
management

6

The political leadership takes the interests of civil society – albeit selectively – into account. It accommodates such groups only in part, and only when these organizations can put pressure on the government or when they form part of the government or ruling party's power base. A good example of this discretionary behavior was seen in the conflict with farmers. The government's populist mobilization of adherents is not a convincing method of addressing problems or of creating a basis for dialogue and constructive solutions.

Civil society
participation

6

Social movements that succeeded in mobilizing marginalized sectors of society, which were at the forefront of responses to the 2001 – 2002 turbulence, have been gradually demobilized. Informal ways of exerting influence dominate, and institutionalized democratic participation has remained largely confined to piquetero leaders' individual roles in parliament or governmental offices. Relations between Fernández and organized labor groups 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 various sectors. However, since the economy entered recession in 2013, it has become increasingly difficult to maintain these trilateral arrangements. The government has denounced recent social protests and the growing criticism from business and trade unions as “economic terrorism” and as being “against the people,” but has not responded with a well-defined economic (crisis) strategy and sound political measures.

Both Kirchner and Fernández have placed a high priority on the issue of human rights violations and acts of injustice perpetrated during past authoritarian regimes. Prosecutions of perpetrators of human rights violations committed during the military regime continued under the Fernández administration. A law implementing the Rome Statute of the International Criminal Court came into force in January 2008. Notwithstanding their undisputed merits, doubts remain as to whether these measures will help to bring about a process of reconciliation between the victims and perpetrators of past injustices. In addition, trials against perpetrators of human rights violations suffer from various obstructions. There have been complaints that the judiciary has been slow to pursue the trials, or even indifferent. In her speech before the National Congress on 1 March 2008, Fernández identified this failure and blamed the judiciary for it; the judiciary subsequently accused the government and legislature of failing to provide sufficient resources and enact required penal code reforms. The exclusive concentration on human rights violations during the years of dictatorship, without also examining human rights violations before the putsch and since the transition to the democracy, can also be criticized. The 2013 appointment of General Milani, suspected of crimes against the humanity during the years of military dictatorship (1976-1983) as Chief of the Army, the silence concerning violation of human rights in Venezuela and the foreign policy turn to new allies such as China, Russia and Iran are examples how Fernández uses the flag of human rights. To this can be added the indifference regarding the Qom, an indigenous minority demanding its lands.

Reconciliation

7

17 | International Cooperation

As a middle-income country that possesses a lot of important development resources, Argentina is not dependent on external aid to advance its development strategy. Basically, it follows an economic strategy aiming at an economic system founded on a strong consumer-oriented internal market and protected local industry – without, however, thoroughly considering the deepening of democracy. In fact, the government does not have a medium or long-term development strategy, or an agenda of political reforms.

For that purpose, the country would profit from good international relations. Initially, U.S. analysts considered Fernández's presidency a potential turning point for relations with the United States, which had been strained due to Néstor Kirchner's close relationship with Venezuela's Hugo Chávez, but relations with the United States remain distant. In 2010, five years after Argentina froze relations with the IMF, Fernández announced that she would accept an IMF review of the Argentine economy, but the conflict remains unresolved. Relations with European countries have also been marked with tension. Relations with Spain deteriorated due to the renationalization of Aerolíneas Argentinas and Repsol's YPF energy subsidiary. Relations with Germany have been complicated by an unresolved conflict over compensation for German bondholders. Despite some political complications with European partners, the government uses the support of international partners in selected areas of development cooperation, such as in environment protection, technology and innovation, and academic exchange.

Whereas Argentina's strong adherence to Mercosur was sustained during the period under review, its international role and global influence decreased, despite the fact that – like Brazil and Mexico – the country is a member of the G-20. Coordination of positions between these three Latin American members of the G-20 did not take place. However, in September 2014, in reaction to the attacks of the holdouts, the Argentine delegation presented in the United Nations a framework for a law-based regulation for debt arrangements, intended to cut off the undermining of debt agreements by minorities of creditors. This proposal was confirmed by a majority of votes and was also backed by IMF Managing Director Christine Lagarde and the majority of Mercosur members. However, the rigid behavior of the government during the conflict with some of the holdouts since June 2014 has had the additional effect of continuing the exclusion of the country from international financial markets.

Effective use of
support

6

At the beginning of her presidency, Cristina Fernández was accorded high levels of international acceptance and equally high expectations. However, these have been replaced over time by a growing skepticism. Fernández's alliance with Chávez, the flirtation with the Castro regime, the country's inflexible position in the pulp-mill conflict with Uruguay, the premature recognition of a (future) Palestinian state, the cut in gas supplies to Chile, the clash with the Spanish government over the nationalization of Aerolíneas Argentinas and Repsol's YPF subsidiary, as well as the often undiplomatic behavior of Fernández herself, of Foreign Minister Héctor Timmerman and of Argentina's ambassadors abroad have all nourished doubts about the responsibility, continuity and reliability of Argentina's foreign policy. The evident lack of a coherent strategy in Argentina's foreign policy makes it difficult to act as a credible partner.

Credibility
4

Argentina's government favors foreign direct investment to enhance economic growth and productivity. It therefore offers incentives for foreign investors and maintains free trade zones and a special customs area. The country is active in the United Nations and other global forums. Within the G-20, to which the country has belonged since 1999, Argentina's diplomacy is closer to the BRIC states (Brazil, Russia, India, China) than to northern countries, but has been frustrated in its attempts to become a member of this grouping. China, in particular, is increasingly attractive as an alternative avenue of international insertion for Argentina. Relations with Europe are focused on Spain, France and Germany. The 2014 debt arrangement with the Paris Club was seen as a positive sign by the latter two countries, but an arrangement with the holdouts is still outstanding. Loans from external agencies are sometimes misused for short-term political or financial priorities. The recent growing interest of Europe in Latin America in general, and of in Argentina in particular, has diminished with the North American economic recovery. This does not preclude the respect that the country has received for the courageous treatment of the human right violations during the military regime. However, Fernández's precipitate and insensible reaction to the death of prosecutor Alberto Nisman have provoked consternation.

Argentina's political leadership cooperates with many neighboring states and complies with rules set by regional and international organizations. Both the Kirchner and Fernández presidencies have focused on the strengthening of Mercosur, notwithstanding disputes with Brazil in the commercial sector, the pulp mill conflict with Uruguay and gas supply disputes with Chile. The relationship with Mercosur partner Brazil is characterized by a mixture of friendship, political rivalry, resistance to allowing the neighbor state to take a permanent seat on the U.N. Security Council, and occasional commercial conflicts. Argentina has complained about the imbalance of trade relations in Brazil's favor and has defended its own protectionist measures. However, since 2010, relations with Brazil have been deepened on the basis of a wide range of treaties, fortifying the strategic partnership between the two Mercosur

Regional
cooperation
8

partners. Both countries have emphasized their will to accelerate the bilateral and regional cooperation and integration processes, to diminish existing asymmetries, and to integrate productive structures with the intention of competing better in the world economy. Despite some remaining conflicts between the Mercosur partners, there is an ideological affinity linking the governments in the Southern Cone region. They are also in favor of constructive cooperation in advancing the Mercosur process, strengthening the Union of South American Nations (UNASUR) and the Community of Latin American and Caribbean States (CELAC), and expanding south-south cooperation beyond the region. As the country's performance as a non-permanent member of the U.N. Security Council from 2013 to 2014 shows, Argentina's multilateralism can be characterized as pre-eminently southern and South American, because it identifies itself as part of a region with a particular identity, involving cooperation in efforts toward global peace and security but with a primary focus on addressing regional challenges.

Strategic Outlook

At the beginning of the election year 2015, the prospects for achieving sustainable political and economic development in Argentina are unpromising. The political landscape remains personality-driven and populist, based more on personal loyalty and clientelistic networks than on strong and representative political institutions or constitutional rules. Overall, one of the major uncertainties is the rather fluid constellation of actors which (especially in absence of substantial political programs) obscures the probability of needed reforms in the political as well as in the economic realm. Despite her historic victory in 2011, Fernández has proved incapable of exploiting the opportunity provided by this personal victory and that of her coalition in both chambers of Congress. The opposition both inside and outside the PJ continues to be fragmented. Recent attempts to join seven opposite factions into a coalition of center-left parties were frustrated, and the battle for leadership within the non-Peronist opposition camp remains just as inconclusive as that inside the dissident factions of the PJ. In addition, popular discontent, particularly among the middle class, has shown an upward trend, while the relationship between the central government and the provinces has remained precarious.

To overcome Argentina's apparent stagnation, the new government, in office since December 2015 (and presumably also its successors in 2019 and 2023), will have to address major political as well as economic reforms. Concerning the economy, the most imminent problem is inflationary pressure and the vicious circle of inflation, capital flight, production bottlenecks and recession. A first step would be to re-establish a serious and trustworthy statistical system, as the corrections adopted by the Fernández government have proved insufficient. In addition, the government will have to tackle the gap between the green dollar and the blue dollar (essentially the difference between official and black-market exchange rates) which have run increasingly out of control, worsening the fiscal situation and increasingly threatening the hitherto existing social politics. 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 in order to make corrections to the prevailing development strategy, which has focused first of all on exploiting the comparative advantages of a country with abundant natural resources, leaving the structural basis for sustained economic development remained fragile up to now.

Concerning political transformation, the most important issue is still the precarious situation of the rule of law in general, and of the judiciary and corruption prosecution in particular. Given the extension of informal institutions and mechanisms prevailing in the Argentine political system, this would require not only a coherent reform program and strategy, but also broad political and civil society coalitions, as well as a longer timeframe. This is difficult enough, and further complicated by the fact that major political actors – above all Peronists – heavily rely on informal institutions and would therefore have to agree to lose parts of their power base. The alternatives, however, are even less promising.