

BTI 2014 | Argentina Country Report

Status Index	1-10	6.76	# 34 of 129	
Political Transformation	1-10	7.55	# 26 of 129	➔
Economic Transformation	1-10	5.96	# 52 of 129	➔
Management Index	1-10	5.01	# 61 of 129	
	scale	score	rank	trend

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2014. It covers the period from 31 January 2011 to 31 January 2013. 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	41.1	HDI	0.811	GDP p.c.	\$	-
Pop. growth ¹	% p.a.	0.9	HDI rank of 187	45	Gini Index		44.5
Life expectancy	years	75.8	UN Education Index	0.815	Poverty ³	%	1.9
Urban population	%	92.6	Gender inequality ²	0.380	Aid per capita	\$	1.9

Sources: The World Bank, World Development Indicators 2013 | UNDP, Human Development Report 2013. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$2 a day.

Executive Summary

Eleven 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. Fernández thus recovered impressively from rather low approval rates just 12 months before. The precipitate death of her husband Néstor Kirchner in October 2010, who was both her predecessor (serving between 2003 – 2007) and designated successor, and at that time the undisputed political leader in the country, led to the revalorization of the ex-president and of the Peronist movement. However, it also provoked the resurgence of intense power games in the political arena as new coalitions formed either to support or impede Fernández' re-election. Ultimately, Fernández managed to close the ranks behind her, while the opposition parties proved unable to unite or to provide even a spurious vision of how to govern the country.

With her historic victory, Fernández also sought to succeed her husband as the centermost point of Argentina's governance system. Initially, she was able to keep control over the Peronist party's power networks as well as over basic economic policies. However, she proved either incapable or unwilling to use 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. Since the beginning of 2012, the erratic government style pursued by the president and her inner power circle has led to growing isolation and a climate of irreconcilable conflict and polarization. Instead of seriously discussing a national development strategy, political elites have increasingly focused on forming sometimes-capricious pro- and anti-Cristina coalitions with an eye to the October 2013 midterm elections, which are deemed as decisive in enabling a third Fernández term, an attainment that today remains unconstitutional.

Concerning economic transformation, the country still lacks a sound institutional foundation for either a market-based or a mixed economy. Since the beginning of Fernández' second term, weaknesses in the country's economic institutions have no longer been counterbalanced by socioeconomic successes. On the contrary, growth rates have declined, inflation has risen, and the economy has entered into a vicious circle of inflation, production decreases, capital flight, trade-balance and competitiveness deteriorations, and – as a consequence of these other factors – a resurgence in strikes and social protests. Like most Latin American countries, Argentina was not deeply affected by the global financial crisis, and has benefited from the rising demand for natural resources. Nevertheless, there are notable tensions stemming from the implementation of a macroeconomic model which relies on a high exchange rate and commercial and fiscal surpluses in an economy based on primary products. The recently implemented import and export restrictions and “pesification” of the economy risk sending the country into a downward spiral. The cut in subsidies and wages failed to eliminate inflation, but reduced internal demand. All this discourages foreign investment and curtails domestic production, putting pressure on employment levels and thus endangering the most prominent success ascribed to “kirchnerismo.”

History and Characteristics of Transformation

Chronic instability has been a key feature of 20th century Argentine history. Frequent changes in the system of government, irregular regime changes and crises within the dominant power cartels have impeded both development and the implementation of coherent policies. This political development culminated 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 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.

When his party subsequently won the midterm congressional elections of 2005, Kirchner strengthened his political position and thus capitalized on several successes, including a strong economic recovery, a successful debt arrangement with foreign investors and his efforts to address the human rights violations perpetrated under the former military dictatorship. Although Kirchner enjoyed approval rates of over 60%, he announced in July 2007 that he would not seek re-election; instead, he backed his wife, Cristina Fernández de Kirchner, who won the presidential elections in October 2007, thereby becoming the first elected female president in Argentina.

In practice, however, she governed in tandem with her husband, who remained Argentina’s real power center. Fernández’ 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. Midterm election held in June 2009 brought significant losses to the government coalition. The sudden death of Néstor Kirchner in October 2010, while depriving “kirchnerismo” of its uncontested leader, abruptly changed the political scenery, paving the way for Fernández’ second term following the 2011 elections.

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 has become not only the second-largest cocaine market in Latin America behind Brazil, but also a transit point for drugs to West Africa and Europe. According to the InSight Crime website, Mexican and Colombian drug cartels are believed to be operating in the country, with corrupt police officers acting as domestic counterparts particularly in the northern provinces close to Bolivia. Investigations by newspapers La Nación and Clarín suggest that the state presence there and along the Ruta 34, also called the "White Road," is relatively minimal. In addition, money-laundering activities related to drug money have become a growing concern, and even nearly led to sanctions by the Financial Action Task Force (FATF) in 2011. According to La Nación, the national unit charged with money laundering investigations (UIF) is ineffective.

Monopoly on the
use of force

8

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, particularly Buenos Aires, the Gran Buenos Aires, and more recently in Rosario, the largest city in the northern province of Santa Fé. Annual homicide rates among 18- to 24-year-old males total an estimated 28 deaths per 100,000 inhabitants. 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 even undermined it by opening security personnel to the temptations of corruption. The same difficulties led the Prefectura Naval and the National Police to strike for higher wages in 2012. The deterioration of public security, mainly taking place in the urban centers, has been one of the most disturbing phenomena since the crisis of 2001 –

2002, and has been a key issue in all national elections since the end of the 20th century.

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. Seventy percent 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 occurred during the period under review, as for instance 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. To date, however, while certainly a civil rights issue, this has not led to a challenge of state identity. On the other hand, public awareness of this problem is very limited. Only 3% of citizens are convinced that indigenous populations suffer the most from discrimination within the country.

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 on 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 banished a British Catholic bishop from the country because he denied the existence of the Holocaust and engaged in anti-Semitic discourse. 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.

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 in 2012 and the growing pesification of the economy affected the poor provinces particularly hard. There are no federal policies

Basic
administration
8

promoting development in depressed regions, and there are very few employment opportunities outside the public sector.

2 | Political Participation

General elections are mostly free and fair, and are accepted in principle as the appropriate means of filling leadership positions. Universal suffrage and the right to campaign for office exist. Elections are administered correctly. However, there is no independent electoral juridical body, and the distribution of public funds is asymmetric in favor of the ruling party coalition. 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 midterm 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.

Free and fair
elections

9

In Argentina's underinstitutionalized political system, individual power groups can create their own separate domains or enact special-interest policies, albeit with changing fortunes due to political cycles. Throughout the 20th century, three corporate groups – the military, entrepreneurs and the unions – successfully exerted undue pressure on incumbent governments. During the period under review, Fernández had sufficient authority to govern, but the strongest labor organization, the Confederación General del Trabajo (CGT), has gained increasing ability to act as a veto power. 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, escalating during 2012 in incidents such as a 24-hour general strike on November 20.

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 vulnerable to pressures from domestic business interests. The conflict with the agrarian sector and the growing mobilization capacity of the unions are good examples of the growing veto power of social actors. Another challenge for the government is the financial sector, which has pressed the government to devalue the currency. 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.

Citizens are free to establish political and civic organizations and assemble freely. These rights are generally respected. Civic organizations are robust and play a significant role in society, although some periodically fall victim to Argentina's endemic corruption. 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. NGOs monitor and influence government policy on a variety of issues. They are generally free from legal restrictions and political pressure from the state. 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.

Association /
assembly rights
10

Freedom of information and the freedom of speech are guaranteed by law. However, government influence over the media has grown since the Menem presidency. The relationship between Néstor Kirchner and the conservative sector of the press, including La Nación newspaper, deteriorated over time. During Cristina Fernández' presidency, this hostility extended also to El Clarín, which in years before had been considered a near-official organ of the government. Some journalists working for the independent media have received threats. 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, aims to promote a diversity of views by limiting the ability of corporations to own large portions of the radio frequency spectrum. 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 the same year, both chambers of Congress debated bills to ensure public access to information held by state bodies. During 2012, the media war sparked by the government's effort to dismantle the Clarín Group intensified without a final decision, with a final judgment by the Supreme Court likely.

Freedom of
expression
8

The state generally does not hinder free access to the Internet. Nevertheless, several court decisions in 2010 and 2011 restricted access to specific websites based on claims of defamation or intellectual property rights violations. In addition, a series of injunctions imposed intermediary liability on search engines, forcing them to delete links from the results presented to users. With 48% of its citizens counted as Internet users in 2011, Argentina had the third-highest such rate in Latin America, after Brazil and Mexico.

3 | Rule of Law

During the 1990s, the balance of power between the three branches of government clearly shifted in favor of the executive, resulting in “presidential hegemony.” The autocratic style of government established under Néstor Kirchner has not changed under Cristina Fernández. After she was elected president in October 2007, she began to govern in tandem with her husband, in what the media dubbed a dual presidency, “los K” or “the Clintons of the South.” 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 the Congress in formulating, scrutinizing and passing legislation, while undermining trust between the executive and the legislature. Néstor Kirchner used 236 necessity and urgency decrees (NUDs), or five per month, as compared to Alfonsín’s 10 and Menem’s 276 (2.3 per month). Fernández was more discreet, using only 29 NUDs until 2011. At the same time, the number of presidential vetoes dropped from 25 (during the former presidency) to 16 (under Fernández). 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 media as agents of “societal accountability”; and, last but not least, by a growing opposition both inside and outside the Peronist party. Some patterns of institutional manipulation continued under both Kirchner presidencies. Examples include the reform of the Magistrates Council, the 2006 “superpowers” law that granted 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). A more positive example of democratization, however, was Fernández’ July 2011 decree establishing open primaries. In general, the Kirchners have respected the letter of the law while violating its spirit. The legislature’s key weakness is its consent to the strength of the executive branch. The Congress has few experienced leaders, virtually no professional staff and little technical expertise, and its committee system and oversight bodies are poorly developed. Few politicians have invested seriously in legislative careers. The share of members re-elected to the Argentine National Congress has been and remains the lowest in Latin America, with the exception of Mexico and Costa Rica (where immediate re-election is prohibited).

Argentina’s judiciary is generally independent, but remains subject to strong influence from political authorities and plagued by corruption. It is institutionally differentiated, but partially restricted by insufficient functional capacity. These problems are more severe at the provincial level. The degree of political manipulation within Argentina’s provincial high courts is very high, as demonstrated by recent research. Alignment with the faction of the ruling governor is a major factor in

Separation of powers

5

Independent judiciary

6

accounting for justices' turnover not only in single-party provinces, as expected, but even in multiparty provinces. Because provincial politics have proven to be a major source of power for national politicians, governors would prefer to have a friendly court in place during their administration. Sweeping judicial reforms played a prominent role in Cristina Fernández' inaugural address, in which she promised to make judges pay taxes, restore the public's faith in the judiciary and "reconstruct the value of security in the face of some incomprehensible judicial rulings." However, the gap between expectations and a real rule of law remains wide. The two Kirchner governments have over time been increasingly resistant to comply with court-ordered obligations, as in the case of the payment of pensions, the democratization of trade unions, various environmental 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.

The weakness of the rule of law is combined with a system of privileges that violate the principle of equality. The judicial system lacks transparency, efficiency and neutrality. Central problems in the country's judicial system and penal practices include poor prison conditions, including the mistreatment of some prisoners; occasional arbitrary arrest and detention; prolonged pretrial detention; excessive use of force by the police; and a general judicial inefficiency. Aside from changes in the Supreme Court and the Magistrates Council, which is responsible for the appointment and removal of judges, few of the promised reform projects have been realized. Public confidence in Argentine jurisprudence remains low. According to *Latinobarómetro* 2010, only 34% of Argentines had confidence in the judicial system (as compared to 32% in Latin America as a whole).

Corruption continues to pervade public institutions. The country has strong anti-corruption regulations and two administrative organizations that work outside the auspices of the Justice Ministry, but this is offset by uneven enforcement and a weak judiciary. Statistics from the Center for the Investigation and Prevention of Economic Crime have shown that, over the last 25 years, corruption cases have taken an average of 14 years to process. Leading anti-corruption activists have accused the administration of stalling on its good governance agenda, particularly by failing to ensure the effective functioning of administrative controls.

Political parties, legislators, the police and the judicial system are perceived as the most corrupt institutions.

Abuse of office by elected officials usually goes unpunished. Nepotism in the provinces, an eternal temptation for 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.

Prosecution of
office abuse
5

Illegal campaign financing and money laundering are crimes that go unpunished in Argentina.

Civil rights and liberties exist, are guaranteed, and comprise equality before the law, equal access to justice and due process under the 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 recurring 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 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. According to Latinobarómetro 2011, growing public insecurity and crime rates are problems of the first rank in Argentine perception, with 34% of the citizenry identifying these issues as major concerns (compared to 37% in 2010; the 2011 Latin American average was 28%, up from 27% in 2010). Only 16 of 100 Argentinean citizens are convinced that democracy guarantees protection against crime, the lowest such rate in Latin America. 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.

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 is not today sufficiently guaranteed, and their interrelationships are not entirely smooth. Fernández' presidency has 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, she has not tolerated external oversight. The highly fragmented opposition, lacking both negative and positive agenda controls, has been left in a position in which it has little choice but to react. The real opposition is located inside the Peronist party, although some of the dissident forces within this movement have adapted themselves to the ruling coalition.

Performance of
democratic
institutions
6

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 AFJP.

The electoral system has a similarly constraint-producing effect. The rebirth of provincial power, linked to the weakening of the party system, has produced a redistribution of political power with considerable consequences for governance. The "localization" and decentralization of politics emerged without the parallel development of a solid party system on the national level, and without the 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.

The relevant democratic actors accept democratic institutions as legitimate, but do not always 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), civil liberties are broadly protected and 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 threefold Front for Victory (FPV) victories in the general elections (2003, 2007 and 2011) and in midterm elections (2005) were the product of opposition weakness rather than of incumbent abuses, as well as being derived from economic successes. The ruling coalition's loss of its majority in the 2009 midterm elections was not repeated in 2011. It was therefore not a sign that a reinforced and more cohesive opposition had emerged. The behavior of the opposition during the October 2011 election campaign and after its defeat was a political disaster, but was not the result of extralegal practices on the part of the executive. The ruling coalition gained its spectacular victory without making concessions to potential veto players either inside or outside the Peronist movement.

Commitment to
democratic
institutions
8

5 | Political and Social Integration

The party system is fairly stable, socially rooted, 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. 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

Party system
6

was the last Peronist able to unite the subdivisions of the party, and his loss leaves a fragmented Peronist movement. 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 possessed a national organization or a significant activist base. Smaller parties 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).

Fernández' overwhelming electoral victory in 2011 was a product of this opposition weakness. She defeated the nearest challenger, Santa Fé Governor Hermes Binner of the Socialist Party, by an unprecedented 37 points. Her Front for Victory (FPV) coalition also regained control of both houses of Congress in concurrent legislative election. However, enduring fragmentation among the Peronists has made it difficult for Fernández to exercise partisan control.

The existing 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 interest groups, above all business organizations and unions, producing a latent risk of pooling conflicts. Established channels enabling communication between organized interest groups and the executive were interrupted during the crisis of 2001 – 2002. Néstor Kirchner only partially restored these relationships. Systematic negotiation and agreements with both organized labor and domestic business were part of Kirchner's greater goal of economic development, due to the need to contain inflation, or more specifically excessive wage increases, one of the main traditional drivers of Argentine inflation. Wage agreements were paralleled by bilateral government-business pacts on maximum prices in each sector. However, Kirchner's strategy of promoting domestic industry to foster growth changed the relationship between the state and the business sector, rendering the government vulnerable to pressure from domestic business interests.

Organized labor continues to play a strong role in Argentina. While market reforms and deindustrialization have weakened the organized labor movement since the 1980s, recent years have shown that even the relatively diminished union sector wields considerable mobilization power. This resurgence of trade unionism has been related to the advent of a pro-union government and the strength of the labor market in recent years. However, the rise of new social movements during the crisis as well as the appearance of alternative trade unions increasingly threatens the hegemony of the established trade unions. Additionally, the image of the trade unions as corrupt organizations has by no means disappeared. Today, the unions no longer play a quasi-universalistic role as agents of the working class; rather, they play a new role in the neo-corporatist model, acting as a moderating force in the economy. Argentine trade

Interest groups

7

unionism now represents around half of the working class. Indeed, some union demands may be at odds with the needs of the weakest and poorest sectors of the lower class. Consequently, the mainstream Argentine unions today are agencies that simultaneously foster social equity (by fighting for higher wages) and inequality. After the 2011 elections, the relationship between the government and the trade unions – particularly the CGT – worsened. The cash crunch has brought an open conflict with the Peronist party machine. CGT Secretary-General Hugo Moyano organized a 24-hour general strike on 20 November 2012. This strike was carried out by members of the working class, grassroots social movements and left-wing parties that have long been in opposition to Fernández, with protestors asserting that the government's left-wing rhetoric has not been matched by what they considered to be right-wing policies. On this occasion, the government responded by saying that the event was blackmail, not a strike. However, the strike showed that Moyano still has the power to bring the country to a standstill.

Approval levels for democratic norms and procedures are fairly high. According to Latinobarómetro 2011, support for democracy is strong and has even increased in recent years, rising from 60% in 2008 to 66% in 2010, and to 70% in 2011. However, it has not regained the high mark of 81% seen in 2006. About 73% of respondents declared they would not support a military government under any conditions. The percentage of people convinced that the country is governed to the benefit of citizens rather than of powerful corporations has increased substantially from 33% (2010) to 45% (2011). One of the most deplorable shortcomings is the fight against corruption, which is identified as the country's most urgent problem by 61% of respondents. Eighty percent (as compared to 73% in 2010) were convinced that democracy cannot exist without a legislative body (as compared to a Latin American average of 59%). About 74% (the highest such figure in Latin America) of Argentines surveyed expressed the belief that democracy cannot exist without political parties. However, only 66% believed in 2011 that the most important aspect of being a citizen was to vote (as compared to 73% in 2010, and 75% in 2009), and 48% of survey respondents said they mistrusted the government (compared to 40% in Latin America as a whole). In general, the gap between acceptance of democratic institutions and judgments as to their correct functioning has narrowed moderately, at least until the 2011 elections.

Since the return to democracy in 1983, civil society has been broadly organized and highly differentiated. Self-organization and the construction of social capital have progressively advanced. While new social actors quickly learned to cooperate on the local level, where more than a third of such groups benefited from horizontal social networks, their relationships with parties, parliament and the government was marked by distance and confrontation until the general elections of 2003. The renewed dynamism of civil society as a provider of services following the retreat of the state helps to explain why Argentine society was able to resist the social and economic collapse in 2001 – 2002 without a more violent social outburst. Civil society

Approval of
democracy
9

Social capital
7

organizations had a remarkable impact during the crisis years due to their voluntary human resource mobilization, but this effect decreased as the economy recovered, and as social programs targeting those most affected were ultimately implemented. Mutual confidence is still underdeveloped today, with only 28% of Argentines agreeing that one can trust the majority of persons. Fundamental social norms are also poorly developed; in 2012, only 28% of survey respondents believed that citizens acted to satisfy the law's requirements, although 41% agreed that citizens knew its obligations and duties. About 62% were convinced that the rich satisfied the law to only a minor degree; some authors even regard Argentina as "an anomic society." Societal polarization increased during the period under review.

II. Economic Transformation

6 | Level of Socioeconomic Development

Key social indicators, which dramatically worsened between the second half of the 1990s and 2003, improved in the subsequent years. In addition, the country weathered the global financial crisis relatively well through the implementation of anti-cyclical measures and the economy remained reasonably stable in 2010 and 2011. The strong economic growth helped create jobs, raise wages and allowed the government to extend welfare programs. Between 2001 and 2011 the real growth of the economy was 94%, and poverty decreased over the same period by two-thirds. In the UNDP's 2011 Human Development Index (HDI), Argentina was ranked 45th out of 169 countries (compared to 46th in 2010), with a score of 0.797 (2010: 0.794). Within Latin America, it was surpassed only by Chile. The Latin American and Caribbean region's HDI score has increased from 0.578 in 1980 to 0.731 in 2011 (2010: 0.706), placing Argentina above the regional average. Exclusion based on gender, religion and ethnicity play a minor role, at least compared to most other Latin American countries. Some unofficial estimates suggest that unemployment and poverty levels may be considerably higher than official data suggest. Based on INDEC data, experts calculate that poverty has been considerably reduced, from 49.9% of the population in 2003 to 26.5% in 2007. However, efforts have stagnated since that time, reaching only 23.3% by 2010. The informal sector has diminished since 2003 but is still of importance; various estimates hold that it accounts for between 30% and 45% of the country's economy. Due to its dependence on subsistence production, a considerable share of the population tends to be excluded from market-based socioeconomic development. According to ECLAC, the country's Gini index score increased sharply through the 1990s until 2003, reaching about 0.58; however, the trend subsequently

Question
Score

Socioeconomic
barriers
7

reversed until 2008, reaching 0.411 in the second half of 2010 and a slightly higher 0.458 in 2011.

Economic indicators		2009	2010	2011	2012
GDP	\$ M	307155.1	368736.1	446044.1	470532.8
GDP growth	%	-	-	-	-
Inflation (CPI)	%	-	-	-	-
Unemployment	%	8.6	7.7	7.2	-
Foreign direct investment	% of GDP	1.3	2.1	2.2	2.7
Export growth	%	-	-	-	-
Import growth	%	-	-	-	-
Current account balance	\$ M	8337.6	1359.7	-2397.1	107.0
Public debt	% of GDP	58.7	49.2	44.9	44.9
External debt	\$ M	126686.6	111768.1	114704.3	-
Total debt service	\$ M	14701.6	14337.5	15523.3	-
Cash surplus or deficit	% of GDP	-	-	-	-
Tax revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	15.2	14.9	15.1	16.6
Public expnd. on edu.	% of GDP	6.0	5.8	-	-
Public expnd. on health	% of GDP	6.2	5.3	4.9	-
R&D expenditure	% of GDP	0.60	-	-	-
Military expenditure	% of GDP	1.0	0.9	0.9	0.9

Sources: The World Bank, World Development Indicators 2013 | International Monetary Fund (IMF), World Economic Outlook 2013 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2013.

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. The importance of administered pricing has grown over the course of the 2000s as the government has introduced price controls for basic goods and services and periodic controls on exports in its effort to fight inflation. In the

Market-based
competition

6

World Economic Forum's World Competitiveness Report 2012 – 2013, Argentina dropped ten ranks to 94th place (out of a total of 144 countries) with a rather poor record above all in the areas of institutional set-up (rank 138) and goods (140th place), labor (140th place) and financial markets (131st place). The main problems indicated in the survey were political instability, inflation, access to financing, import restrictions, corruption and inefficient government bureaucracy.

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. In addition, Fernández told Argentines they should “think in pesos.” The restrictions were followed by the announcement that clearly profitable sectors of the economy (banks, insurance, telecoms 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 government from nationalizing Repsol's YPF energy subsidiary in April 2012 without prior announcement, and subsequently delaying its payment of compensation. This action, combined with import limitations and currency controls, has formed part of an interventionist, protectionist economic strategy that President Fernández' government says is needed to boost national industry. All these measures divided the nation and provoked massive street protests in September and November 2012.

Anti-monopoly policies exist but are executed within a weak institutional framework. They are very inconsistently enforced or even politically instrumentalized. Néstor Kirchner in particular tried to utilize competition laws to benefit Argentine firms. 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 barriers 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

Anti-monopoly
policy

5

or media. In some cases, crony capitalism has favored the creation of new monopolies. According to the Global Competitiveness Report 2012 – 2013, Argentina ranks 136th (out of 144 countries) with respect to the effectiveness of anti-monopoly policy, and 117th regarding the intensity of local competition.

Foreign trade is liberalized in principle, but several exceptions remain, including differentiated tariffs and privileges for some domestic sectors and industries. Within the Mercosur area, approximately 99% of goods are traded without tariff restrictions. Nonetheless, there are multiple protectionist measures in place, as well as ongoing trade disputes, particularly with Brazil, Argentina's most important trade partner. Permission for Mercosur countries to make exceptions to the common external tariff expired at the end of 2010. However, new exceptions were granted in 2012.

Foreign sales of manufactured goods are promoted by means of a number of incentives, including tax refunds, as well as by maintaining free trade zones and a special customs area in Tierra del Fuego. Although there are no preliminary requirements to gain import rights, permits are required for certain goods. According to the U.S. Department of Commerce's 2010 Country Commercial Guide, the Argentine government also uses phytosanitary rules, specific duties, quotas and anti-dumping investigations to protect domestic products from competition from imported goods. A number of products such as beef are subject to export restrictions.

The move from currency convertibility to a managed-float exchange rate regime, along with high world commodity prices, has lifted the value of exports to record levels. National and foreign investment grew sharply through 2011, but dollar-use restrictions imposed in March 2012 reduced imports or themselves represent an element of import restrictions. New legislation requires all imports to go through a system of nonautomatic licensing procedures. Thus, the national government's aim of protecting domestic industry has taken a nasty turn from protectionism toward self-destruction, generating turmoil both at home and abroad. The lack of imported capital goods and technology has made production increasingly difficult, while discouraging new foreign investments. Imports fell by 7% in 2012, and exports by 3%. The trade surplus is one of the pillars of the current government's economic model. This surplus was 27% higher than the year before at the end of 2012, but import restrictions and the manipulation of statistical figures have provoked numerous WTO complaints against Argentina. The current comparative advantage resulting from the favorable exchange rate is also fuelling reindustrialization, but dollar and import restrictions endanger this strategy and are a significant obstacle in developing sustainable industrialization projects.

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. Banks remain susceptible to broad fluctuations because of their significant dependence on external capital. Until 2010, the central bank

Liberalization of
foreign trade

4

Banking system

6

accumulated high reserves. However, in 2011, Argentina was the only country in Latin America that saw its reserves shrink (by 4.7%). After Fernández' re-election victory in 2011, the government forced the central bank to continue selling its dollar reserves to maintain exchange rate stability. This announcement fuelled yet more demand for dollars, and the government was forced to impose stricter controls. A relatively stable peso had been the basis for an economic policy founded on a high consumption capacity; however, this policy ultimately provoked a growth in imports and a drain of the country's dollar reserves.

Banking supervision and regulation has significantly improved since the 2001 crisis. In its September 2012 country report, the IMF praised the Argentine central bank and the Superintendence of Financial Entities (SEFyC) for "their thorough supervision, their implementation of risk-based supervision, and their thorough examination process." However, considerable shortcomings remain regarding the independence of supervisory agencies, legal protections for supervisors, loan provisioning and consolidated supervision warrant enhancements. Despite recent progress, the assessment of compliance with Basel principles produces rather mixed results. According to the World Bank, the share of nonperforming loans was rather low at 1.8% in 2010, 1.2% in 2011 and 1.5% in 2012. The banking sector's capital-to-assets ratio has hovered at an average level in recent years, at 11.9% in 2010, 11.6% in 2011 and 12.1% in 2012.

8 | Currency and Price Stability

The Kirchners' approach to controlling inflation has been to put out fires as they come up with the introduction of ad-hoc policies such as price controls for basic goods and services, or periodic controls on exports in an effort to stabilize prices for goods in the domestic market. These instruments have included agreements with producers and intermediaries, and limits on beef exports so as to maintain supply levels for the domestic market. Official statistics put the country's inflation rate below 10%; however, independent economists emphasize that these figures grossly understate consumer price increases, and that the real 2012 figures were more likely between 25% and 27%. The manipulation of official inflation rates by the INDEC has been a topic widely discussed and criticized. The underestimation of the official rate demonstrates the government's unwillingness to pay its debts, some critics say, as 41% of public debt has interest payments indexed to the official consumer price index (CPI).

Until 2010, Argentina's central bank was largely independent, managing monetary and currency policy so as to support economic expansion, maintaining a slightly undervalued or "competitive" exchange rate and negative real interest rates. In 2010, the government provoked a conflict with the central bank by forcing to use a portion of its reserves for debt service, over the objections of the bank's President Martín

Anti-inflation /
forex policy
4

Redrado. While this action was prohibited by law, Cristina Fernández issued a decree to remove Redrado and designate Mercedes Marcó del Pont as successor. This act was strongly criticized as a clear violation of the independence of the central bank. On 22 March 2012, the Fernández administration implemented a central bank charter reform permitting the institution to decide on the amount of reserves necessary to hold relative to the money in circulation. Under the new regulations, reserves beyond this point can be used freely. In addition, central bank directors were given the power to make decisions on the use of reserves without congressional approval. The new rules gave the government access to almost 20% of the country's reserves, as compared to about 10% previously. Overall, the reform acted to further undermine the independence of the central bank.

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. Huge amounts of off-budget money have been used to build Fernández' own political machine. Another point of concern is the problematic reform of the financial adjustment mechanisms governing the relationship between the central government and the provinces, a move emphatically demanded by the IMF.

In June 2010, the government completed a debt swap begun by former President Néstor Kirchner in 2005. Two-thirds of private bondholders participated, leaving approximately \$6 billion in private default claims still outstanding. In July 2012, the central bank used \$4.2 billion of its reserves to pay debt due to private bondholders and international credit organizations. On October 2012, the *Fragata Libertad*, a tall ship used by the Argentine navy to train its sailors, was detained by Ghanaian authorities at the port of Tema in enforcement of a U.S. court's ruling ordering Argentina to make a \$1.3 billion payment related to its 2002 foreign-debt default. The Argentine government appealed the judge's decision, obtaining a delay until a final decision due in February 2013. On 17 September 2012, Moody's downgraded its outlook on Argentina's public debt bonds from stable to negative, assigning the country a B3 rating as a consequence of "incoherent" government policies such as the nationalization of Repsol's YPF oil and gas subsidiary and the manipulation of statistical figures published by INDEC. Fernández reacted by denouncing the rating agencies as "terrorists" and "pirates." On January 2013, the detained *Fragata Libertad* returned to Buenos Aires, following a ruling by the International Tribunal for the Law of the Sea in Hamburg.

Overall public debt was reduced to 49.2% of GDP in 2011, from 58.5% in 2010. Total debt service in 2011 amounted to \$15.5 million or 3.6% of GDP (2010: \$14.3 million); reserves shrank from \$49.7 billion in 2010 to \$43.2 billion in 2011.

Macrostability

6

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 systems. The judiciary suffers not only from corruption and functional deficiencies, but also from 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. Government manipulation of inflation statistics has caused domestic bondholders to lose billions of dollars in interest payments.

Property rights
6

Private companies represent the backbone of the economy. The State Reform Law of 1991 privatized large portions of the country's basic industry, infrastructure and 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 monopoly formation. The crisis of 2001 – 2002 motivated the government to freeze the tariffs for services provided by privatized public enterprises. This provoked conflict between the government and the firms. While the government complained about a lack of investment, the companies demanded compensation for the revenues they had lost as a result of ending dollar-peso parity. As a reaction to the lack of investment by foreign companies, the two Kirchner governments declared that all contracts would henceforth be subject to revision, reversed the privatization trend of the former years, revoked some concessions and nationalized some public services.

Private enterprise
7

The most spectacular cases of renationalization under Cristina Fernández' government were those of the Aerolíneas Argentinas airline in September 2008 and of 10 private pension funds two months later. In the latter case, the law exhibited ambiguities and juridical gaps, giving the government a wide range 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. 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. Under the decree restricting access to dollars, firms are unable to transfer their profits home, producing another disincentive to investment.

10 | Welfare Regime

Social safety nets are developed to some degree, but do not cover all risks for all strata of the population. The neoliberal reforms of the 1990s induced the partial privatization of social security and the decentralization of education and health care. The pension system was reformed into a mixed system with the introduction of an individual capitalization regime and private pension funds that were later renationalized by Cristina Fernández in 2008. Today there is a mixed and rather fragmented welfare system that includes public, private and corporate entities. The performance of this system remains mixed. Despite unprecedented fiscal health, the two Kirchners' 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. Social programs established to deal with the significant rise in poverty in the wake of the 2001 – 2002 crisis, 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' second term. Buoyed by a recovering economy since mid-2010, the administration increased social welfare spending during the period under review, including a grant program that provided \$50 per month to approximately 3 million poor children, distributed 250,000 laptops to secondary-school students, and subsidized between 15,000 and 20,000 mortgages, largely for first-time buyers. In August 2012, the minimum wage was increased by 25%, reaching the equivalent of \$620 per month. Social programs have increasingly been incorporated in employment programs as well, blending labor-market and poverty-prevention policies. Overall, poverty and extreme poverty have been reduced by two-thirds since the 2001 – 2002 economic disaster, and social expenditures have grown threefold.

All these programs were facilitated by a clear political will toward what Fernández officially termed “redistribution.” They have benefited from a general discontent with the neoliberal reforms of the Menem era, increasing technical know-how in the ministries responsible for social policies, and a fiscal surplus created by increased external demand. A rise in internal purchasing power and the creation of millions of new jobs was also beneficial in this latter regard, aided for example by the Argentina Works (Argentina Trabaja) program. 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.

Argentina does possess institutions and programs designed to compensate for gross social differences, but they are highly dependent on political cycles and are limited

Social safety nets

6

Equal opportunity

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in scope and quality. Little government attention has been focused on the question of embedded poverty and indigence. Welfare remains stuck essentially in the safety-net model of neoliberalism, which at best can only mitigate some of the worst manifestations of poverty. The problem for the government is of course how to raise sufficient income for social spending, especially if growth declines and further tax increases are effectively vetoed.

Socially disadvantaged, poor women, indigenous peoples and immigrants do not have equal access to public services. Indigenous peoples, who represent between 3% and 5% of the total population, are largely neglected by the government. Women have equal opportunities in education and take an active role in political life. In 1991, a law mandated that one-third of National Congress seats be held by women, giving it one of the highest women's legislative representation quotas in the world. In addition to the 2011 re-election of Cristina Fernández as president, women were elected to 38.5% of Chamber of Deputies seats and 36.1% of Senate seats. However, women remain disproportionately affected by labor market problems, and are therefore disadvantaged in the economic and social spheres. Domestic abuse remains a serious problem. Fernández has begun to address all these problems, but clear-cut policies have not yet become visible.

Finally, a vicious circle is produced by the country's deficient education system and patterns of social exclusion. While Néstor Kirchner's government promised to direct new education investments toward assistance of the disadvantaged segments of the population, particularly within it the context of its Strategic Plan on Science and Technology 2006 – 2010, such aid has yet to be implemented. In the Global Competitiveness Index 2012 – 2013, Argentina was ranked 89th in the area of education, out of a total of 144 countries. The gap between educational achievements and the requirements of the 21st century labor market begins at the secondary school level, as 58% of the labor force between 25 and 64 years of age and 75% of pupils from poor families have not finished secondary school.

11 | Economic Performance

Economic growth, only briefly interrupted in the 2008 – 2009 period, enabled the government to accumulate substantial official reserves (over \$50 billion in 2010). However, growth has since 2011 shown a downward trend. The country's accumulated reserves, combined with a relative lack of recent borrowing from the international capital market, helped the economy weather the external turbulence. A higher tax burden, improved tax collection efforts and the recovery of tax revenues have supported the government's successful efforts to maintain primary fiscal surpluses since 2003. In 2009, the economy contracted by 2% – 2.5%, but recovered in the second half of 2010 and ultimately grew by 9.2% that year, according to the Economic Commission for Latin America and the Caribbean (ECLAC). It followed

Output strength
6

this with a strong 8.9% jump in 2011. However, growth has decreased since May 2012, with ECLAC forecasting just 2% in 2012. This decline, along with falls in both production and employment levels, a rise in the inflation rate, and the gap between the official and black-market exchange rates, is sign of increasing imbalance in the macro economy. The fiscal bottleneck prompted the government to reduce subsidies implemented under the Néstor Kirchner administration with the objective of maintaining artificially low prices for public utilities such as transportation, fuel and food. Since 2012, the government has been unable to satisfy state workers' demands for salary increases or broader calls for pension-level increases, provoking conflicts with unions. Some independent economists estimate that poverty and unemployment rates are considerably higher than those indicated by INDEC figures. Investment and saving rates are still relatively weak due to the scarcity of dollars and ongoing capital flight. Susceptibility to external shocks remains high, particularly with respect to volatile world commodity prices and external demand shifts, especially from Brazil and China. The informal sector is still large. Investment in science and technology has increased under the Cristina Fernández government, but remains insufficient. The two central challenges with respect to sustained development – reducing external vulnerability and improving productivity – remain unsolved.

12 | Sustainability

Argentina faces significant challenges in relation to the preservation of its natural environment. In particular, the expansion of genetically modified soy cultivation, for example in the northern province of Chaco, is contributing to the degradation and erosion of the soil, a loss of biodiversity, and significant water contamination (as well as being accompanied by violent land-use conflicts). Pollution is a major environmental problem in Argentina. Water pollution is a particular challenge, with urban areas affected by harmful waste-disposal practices, and rural rivers polluted by the increasing use of pesticides and fertilizers. Additional threats to the environment include the overexploitation of mineral resources (again accompanied by violent land conflicts), erosion due to inadequate flood controls and inappropriate land use practices, the hole in the ozone layer above Patagonia and the South Pole, the deterioration of irrigated areas, and desertification.

Though the goal of sustainable development was incorporated in Article 41 of the 1994 constitution through the “polluter pays” principle, environmentally compatible growth receives only sporadic consideration and has a weak institutional framework. During the past 17 years, Argentina has implemented legislation regulating most existing environmental problems, and several provinces have included environmental planks in their constitutions. Nonetheless, existing 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,

Environmental
policy
5

provincial and municipal agencies undermines policy coherence, enhances the risk of overlapping jurisdictions, weakens oversight mechanisms and is conducive to low compliance levels. The promulgation of the Environment Agenda in 2006 by the National Secretariat for Environment and Sustainable Development represented a positive step, but its implementation has been slow to date. September 2010 saw the passage of a glacier-protection law forbidding mineral extraction activity in glacier zones; however, a recent decree demonstrated that the government has little will to enforce the law, or to retard the expansion of mining activities into other previously protected areas. In the 2012 Environmental Performance Index, Argentina was ranked 50th of 132 countries. Only 33.9% of the population is satisfied with the state's environmental protection activities.

Along with Uruguay and Chile, Argentina ranks at the top of Latin American education indices, and has a well-articulated system of primary and secondary education. However, despite increased expenditures, this system remains underfunded. The same is true of the otherwise well-developed public university system, which has been complemented by a network of private universities since the 1980s. 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. Seventy percent of scientific personnel are concentrated in only three provinces: the federal capital, Córdoba and Santa Fé. The province of Buenos Aires is particularly severely disadvantaged by the uneven distribution of financial resources.

Under the Kirchner governments, public expenditure for education and research has been increased substantially, reflecting the conviction of both presidents that science and research are fundamental pillars in the recovery of the national economy. Argentina occupies the third rank 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.

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 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 professionals per 1,000 inhabitants compared to Argentina's 2.5 per 1,000 people.

Education policy /
R&D
6

Transformation Management

I. Level of Difficulty

Structural constraints on governance have been moderate since the political and economic recovery that began in 2003. GDP per capita is comparatively high (\$10,945 in 2011), but education system quality is ranked only 89th in the world (out of 144 countries) according to the U.N. Education Index. Several developments have improved the conditions for government performance. The government has held majorities in the two chambers of parliament, with exception of the period following the June 2009 midterm elections. Raw material prices have been high, the U.S. dollar has been relatively weak, and the relatively modest links between the national banking system and the international capital market served the country well during the world financial crisis. The recovery of the world economy and most other Latin American economies after three years of stagnation, recession and debt accumulation has helped bolster Argentina's economy. Finally, the fragmented and weakened opposition has given successive governments an unusually free hand. Aside from the high (but declining) rate of poverty and the extent of the informal economy in urban areas, there are no major structural constraints in the socioeconomic field.

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 agrarian products. 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.

Civil society
traditions
4

There are no severe ethnic or religious cleavages in Argentina. Division along social or ideological divides was moderate in the post-crisis years. However, as a consequence of widespread discontent with poor political management, society and the political elites remain somewhat polarized. Citizen dissatisfaction, particularly among the new middle class as the part of the population most affected by restrictive government measures and the economic downturn, has intensified since the beginning of Fernández' second term. The expansion of this middle class, a result of wage increases and bolstered consumption capacity, has led to stronger demands and political articulation among this population. This has been visible in mobilizations, street protests and sometimes violent riots. In September and November 2012, hundreds of thousands of people marched in the country's main urban centers in so-called pots and pans protests (*cacerolazos*). Dissatisfaction among this population exploded in a general strike on November 20, and culminated in the December 7 ("7D") protests, the date on which the government moved against the Clarín multimedia group. The central complaints underlying these citizen protests included the restrictions on dollar access, growing public insecurity, presidential arrogance, high inflation rates (and their disavowal by the government), the reduction or abolition of subsidies for some basic public goods, and finally the pollution of the environment by industrial and mining activities. For the first time since 2002, the social protests were allied with unions such as those in the agrarian sector and the CGT; this may ultimately make the movements more dangerous for the government.

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 a so-called model characterized by "accumulation and social inclusion." Fernández has neither upheld her promise to strengthen political institutions nor provided a sound economic framework. She has refused to reform the INDEC statistical agency in spite of repeated criticism from inside and outside the country over incorrect inflation figures. As her behavior in the farm conflict and in the debate over manipulated government statistics demonstrates, she has followed an inflexible course, based on a populist strategy of mobilizing her adherents while preventing democratic institutions, political parties and the National Congress from addressing the conflict in a meaningful manner. Hopes for a new political style and some policy corrections after the death of her husband have not

Question
Score

Prioritization
6

been fulfilled. On the contrary, her erratic and polarizing government style and her assertion that all critical voices are simply traitors to the country and to the Argentinean people have produced a growing isolation. 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.

The government is committed to democracy and a market economy, but has had only limited success in implementing its announced reforms. The implementation capacity of Cristina Fernández' government 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 her programs have been successfully implemented. Political reforms, such as electoral (primary) and party reforms, have only been pursued when they promised short-term political benefits. The most contentious issue, the agrarian conflict, remained unresolved as of the time of writing. During Fernández' first term, she and her husband Néstor Kirchner were forced to govern in a coalition with the negotiated consent of party bosses, as well as having to work with some members of the opposition, the so-called K-radicals. The difficulty of achieving legislative discipline despite the PJ's legislative majority in the National Congress before and after the years 2009 – 2011 explains why Fernández sought an extension of emergency executive decree authority immediately after taking office. At the beginning of her second mandate, Fernández proclaimed that she would engage in a process of "fine tuning" ("sintonía fina") 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.

Whereas presidents Duhalde and Néstor Kirchner responded somewhat effectively to the mistakes and failed policies of the past, 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) 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. She won her second term in the October 2011 presidential elections with 54% of the vote, 37 points ahead of her nearest rival, socialist Hermes Binner. At the same time, her party gained an absolute majority in the two chambers of Congress. Her campaign was favored by a strong economy, which had grown between 7% and 9% each year since her husband took office and had fared well even during the international crisis. The

Implementation

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Policy learning

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president is surrounded by a closed circle of functionaries consisting predominantly of young men from La Campora (the youth organization of Fernández' Front for Victory coalition). The only dialogue favored by Fernández is one with "the people," though this is in reality a monologue on her part. In sum, she governs in a style very similar to her husband's, but has not learned from his errors. Thus, she has either continued in the same manner or performed more poorly.

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. 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. The central bank's dollar reserves have dwindled thanks to a lack of access to international financing, growing import levels and capital flight. The government tapped the central bank's dollar reserves and the nationalized pension funds in order to comply with its debt obligations, a much-criticized action. In 2011, after the executive and legislature failed to reach agreement over a new budget, President Fernández issued a decree on December 29 rolling the 2010 budget into 2011.

A positive step toward budget consolidation was the cut of some subsidies by decree at the beginning of Fernández' second term, above all in the transport, water and electricity sectors. Since 2003, subsidies had represented one of the most significant items in the yearly budgets. On the other hand, the president used executive decrees to increase spending ahead of the October 2011 general elections, and in 2012 reserved part of the budget for discretionary use in 2013, the year of midterm elections that were expected to be heavily disputed.

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, noncompetitive 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 quality of the civil service

Efficient use of
assets

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is severely affected by political interference that undermines professionalism and the administration's meritocratic principles. In the diplomatic service, the Kirchner and Fernández governments have 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. In addition, there are great differences inside the federal bureaucracy and even more at the provincial level, where professional standards are generally very weak.

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.

Policy
coordination
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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. The weakness of the rule of law is combined with a system of privileges that violates the principle of equality. Foreign investors complain about corruption in both government and the private sector. Criminal prosecution remains an exception in actual political practice. One spectacular exception was the four-year prison sentence applied to former Minister of Economy Felisa Miceli in December 2012. This was the first sentence against a member of one of the Kirchner governments. Fernández' vice-president and former minister of economy, Amado Boudou, is currently involved in a corruption case. Illegal campaign financing and money laundering usually go unpunished. There is no effective auditing of state spending.

Anti-corruption
policy
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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 maintaining democracy and a market-based economy should be Argentina's development goal, although ideas about the obstacles to be encountered and the strategies that should be applied vary widely. In addition, apart from consensus on these basic goals, there is no agreement on how to eliminate defects in democracy or how to strengthen political and economic institutions. Efforts made under the de la Rúa administration ended abruptly with the 2001 crisis. Since then, the Peronist hegemony in the political system has provided for the maintenance of a "low-level equilibrium" in which dominant actors are considered to be more important than institutions, and can be checked or defied only by other dominant actors, not by the rule of law. 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 conceives the political process as a zero-sum game. According to Latinobarómetro 2011, citizen confidence in the government's problem-solving capacity has risen in recent years; however, the government has ignored this opportunity in favor of a growing isolation.

Consensus on goals
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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 church – have been seriously weakened as compared to previous decades. The military disposes of only of 0.47% of GDP, and since the return to democracy has taken on a new mission dominated by participation in U.N. missions in conflict areas. Agrarian unions fought strongly against the export taxes imposed by Cristina Fernández' government, but did not resort to violence as a strategy and are not motivated by anti-democratic ideologies. On the 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 first general strike in recent history, organized by the CGT in November 2012, was 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.

Anti-democratic actors
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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 and the Clarín and La Nación media conglomerates. 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, which were denounced by Fernández as a betrayal of the people by frustrated segments of the middle class.

Cleavage /
conflict
management
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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
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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 since. 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 neocorporatist arrangements. Neocorporatism 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. But with the weakening of growth in 2012, it has become increasingly difficult to maintain these trilateral arrangements. The government has denounced recent social protests as being "against the people" rather than responding with 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. Néstor Kirchner in particular embarked on a series of efforts to address past human rights abuses. In 2006, the Supreme Court overturned the Full Stop law (Punto Final) and the Due Obedience law (Obediencia Debida), both of which limited prosecution against military officers for human rights violations committed under the military regime. During her presidency, Cristina Fernández has continued the human rights policies of her husband. A law implementing the Rome Statute of the International

Reconciliation
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Criminal Court came into force in January 2008. A bill incorporating the crime of enforced disappearance into the penal code was approved in 2009.

Notwithstanding their undisputed merits, doubts remain as to whether these somewhat radical 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.

17 | International Cooperation

Argentina is not dependent on external support to advance its development strategy. Net official development assistance to Argentina was \$85 million in 2011, equivalent to 0.0% of gross national income or 0.08% of gross capital formation. Since the recovery of the economy in 2003, the government has gradually begun to reopen the country to the international community. During her electoral campaign, Cristina Fernández sought to raise Argentina's profile abroad through official visits to Spain, France, Mexico, Germany, Chile and the United States, as well as to emerging countries of the global South including China, India and Iran. U.S. analysts considered her 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. 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 in reality the conflict remains unresolved. Similarly, relations with the United States remain distant, the consequence of a series of diplomatic skirmishes between the two countries and ineptitude on the Argentine side.

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 unresolved conflict over compensation for German bondholders. Relations with Chile, tense since 2004 due to cuts in gas deliveries, relaxed during the period under review. The relationship with Mercosur partner Brazil has priority and is very cordial, despite occasional friction due to protectionist measures implemented on both sides. Relations with Venezuela also remain strong, motivated not only by a certain degree of ideological affinity but also by pragmatic considerations. The Chávez government

Effective use of
support
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has been a strong economic partner in the energy and financial sector. Whereas Argentina's regional integration grew during the period under review, its international role and global influence decreased, notwithstanding the fact that – like Brazil and Mexico – the country is a member of the G-20 group. In sum, during the second term of Fernández' presidency, foreign policy remains subordinated to domestic policy and has been marked by improvisation, minimal flexibility and a defensive tone.

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' 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 nationalization of Aerolíneas Argentinas and Repsol's YPF subsidiary, and the often undiplomatic behavior of Fernández herself, Foreign Minister Héctor Timmerman and 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. Relations with Europe are focused on Spain, France and Germany. Relations with the latter two countries are affected by an outstanding debt arrangement with the Club of Paris dealing with the remaining private bonds held by Europeans, as well as by public enterprises' frozen tariffs. Loans from external agencies are sometimes misused for short-term political or financial priorities. However, in recent years, Europe has shown growing interest in Latin America in general and in Argentina in particular, as a reaction to the rapid recovery of the Latin American economies from the international financial crisis of 2008 – 2009.

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

Regional
cooperation

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of trade relations in Brazil's favor and has defended its own protectionist measures. Despite these conflicts, 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. 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 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. The most contentious foreign policy issue under the Kirchner and Fernández governments was the conflict with Uruguay over the construction of a \$1.2 billion pulp mill on the Uruguayan side of the river Uruguay. On 28 July 2010, the seven-year dispute appeared to reach solution. The agreement provides for joint environmental monitoring of both sides of the River Uruguay basin, ending Uruguayan concerns that any monitoring scheme for the plant would amount to a disruption of sovereignty.

Strategic Outlook

Eleven years after the system crisis of 2001 – 2002, 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. 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.

Innovative learning processes among the political elite are almost wholly absent. The opposition both inside and outside the PJ continues to be fragmented, and the question of leadership and potential alliances remains undecided. The veto power wielded by Fernández' intraparty rival, Confederación General del Trabajo (CGT) leader Hugo Moyano, will probably increase with the intensification of the economic crisis. With regard to elections in 2015, Fernández has avoided speaking about her own re-election, but her allies have openly discussed the “Cristina eternal” political project, despite her current constitutional ineligibility for a third term. To date, her backers seem to have focused on a rather indirect way to achieve this goal, speaking of a constitutional reform creating a parliamentary system that permits presidential re-election without limits. However, Fernández is ultimately unlikely to obtain the two-thirds parliamentary majority necessary for constitutional reform. The internal battle for leadership within the Radical Civic Union (UCR) remains just as inconclusive as that between the dissident factions of the PJ.

More broadly, popular discontent, particularly among the middle class, has shown an upward trend. The relationship between the central government and the provinces remains precarious, in large part as a consequence of the provinces' worsening financial situation, which in turn has been strongly affected by the growing “pesification” of the economy. A central problem, as yet unresolved, is inflationary pressure caused by the restructuring of prices and a swift growth in demand that, together with restrictions in access to dollars, has led to a vicious circle of inflation, capital flight, production bottlenecks and recession – and, as a further consequence, growing social protests. Poverty, income inequality and the scope of the subsistence economy remain challenges. Though the goal of import restrictions is to persuade Argentine's industries to become more autonomous, these policies have ultimately limited the diversification of Argentine production, which in turn will inhibit Argentine industry's ability to compete internationally by producing high-quality exports.

A first step toward addressing downward economic trends would be to reestablish a serious and trustworthy statistical system. The government has promised to do this by September 2013 as reaction to a “motion of censure” sent by the IMF for Argentina's failure to comply with the fund's Article 8, regarding data transparency. The gap between the green dollar and the blue dollar (essentially the difference between official and black-market exchange rates) is growing, while the fiscal situation also shows a downward trend. The structural basis for sustained economic

development remains fragile, as the state's development strategy has focused on exploiting the comparative advantages of a country with abundant natural resources. Susceptibility to external shocks, particularly to world commodity-market prices, remains high, while the informal sector remains large. Capital flight remains a serious problem, reflecting the growing "pesification" of the economy and the doubts of business interests as to economic policy sustainability. Foreign firms will delay investment in the country in the absence of guarantees they will be able to transfer profits freely, or access technology imports. Ensuring a sufficient energy supply and a science-based production structure, thus enabling progress toward a more competitive and diversified economy, remain additional challenges for the coming years.

Since the beginning of Fernández' second term, the government has had fewer material and symbolic resources able to address the economy's downward trend. In addition, Fernández runs the risk of an embarrassment at the polls at midterm elections scheduled for late October 2013 if she continues to avoid dialogue. On the other hand, Fernández' "hiper-cristinismo" has the advantage that she continues to be the exclusive and excluding center in the country's system of power. However, with her erratic behavior, the president risks isolating herself and losing contact with citizens and reality, both inside and outside the country. Crisis and institutional weaknesses tend to be mutually reinforcing, a dilemma which may be called the "Argentine disease."