

# Argentina's turnaround

## CLEAR SAILING, IN POWER, AND A PICTURE-BOOK RECOVERY

While global economic experts discuss whether the economic crisis that began in 2008 will be V-shaped or W-shaped, Argentina policy experts also wonder whether the Kirchners' rebound is here to stay or will face another decline as we move toward the election in 2011. One is tempted to say that the Argentine political cycle will be closely linked with the global economic cycle. There is something to this, but there is also something more. The disengagement of the Argentine economy in some way facilitated the government of Cristina Fernandez de Kirchner (CFK) to navigate the waters with more ease than other countries. The overall picture is that the South has been more successful than the North at circumventing the crisis. This partly explains why Argentina's economy has been able to recover quickly and is close to a 9 percent growth rate for 2010.

Here is the tailwind. First, the world has begun to recover from the crisis and regain its level of demand. Second, Brazil also could do it, being the last to enter the recession and the first to get out of it. Third, raw materials and commodities prices continue to rise, two sectors where Argentina has comparative advantages. Fourth, China has not stopped growing nor demanding Argentine products.

## DELIVERING NEW SOCIAL PROGRAMS

However, there is more than a tailwind. CFK was able to take advantage of the positive economic climate to promote new laws and social programs. First, in October 2009, CFK's government announced the creation of a Universal Child Benefit, a social program that covers the children of unemployed parents and informal sector workers, rural workers, and domestics with incomes below the minimum wage. Second, in July 2010, Argentina's Senate voted 33 to 27 to make theirs the first country in South America

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to legalize same-sex marriage. CFK supported the bill to recover lost ground among young and urban citizens, but also to secure the support of the centre-left parties on whom her administration increasingly depends for the passage of legislation. Third, during that month, Argentina celebrated the bicentennial of its independence with a weeklong federal, multicultural, and modern performance few expected to witness. Attendance at the various events was massive, and the "rally round the flag" effect was remarkable. The closing matches of the FIFA World Cup in South Africa, which occurred in the same week, served only to enhance public excitement and national pride.

## REGIONAL FOREIGN POLICY INITIATIVES TOO

The CFK government also tried to revitalize its foreign policy. The coup in Honduras in June 2009 prompted active Argentine engagement along with Brazil, two countries that do not yet recognize the new Honduran government. In February 2010, a devastating earthquake struck Chile, one of the strongest earthquakes ever recorded. Argentina was the first country to bring help and condolences. In May, former President Néstor Kirchner was appointed Secretary-General of the Union of South American Nations (UNASUR). After a timid start in

his new role, Kirchner was put to the test when Venezuela broke off relations with Colombia following Bogota's accusations at the Organization of American States (OAS) that President Hugo Chavez tolerates the presence of active members of the armed guerrilla forces in Venezuelan territory. Both CFK and Néstor Kirchner managed to have separate meetings with Colombian and Venezuelan officials. After intense conversations, Néstor Kirchner managed to get both presidents together and restore diplomatic ties between Venezuela and Colombia.

The Argentine government has also made an effort to clean up its slate in relation to the confrontation with Uruguay over the use of the shared Uruguay River. In July, Argentina and Uruguay agreed to a joint environmental monitoring program along the river, ending a five-year controversy over pollution from a Finnish paper mill on the Uruguayan side. The same month, CFK went to China and held a meeting with President Hu Jintao in order to resolve a ban on Chinese imports of soy oil from Argentina, a hugely profitable export business that totalled US\$1.4 billion in 2009.

## GOOD NEWS IN THE PUBLIC OPINION POLLS AND THE PROVERBIAL "BUT"

All these moves have gone down well in public opinion. A recent poll by *Poliarquía Consultores* shows that views on CFK have significantly improved in the last eight months. From a negative approval rating of 54 percent in December 2009, CFK moved to 38 percent in August 2010. Likewise, she climbed up in positive views from 19 percent to 36 percent in the same period. Elections in Argentina are still more than a year away, and it is not clear yet whether CFK will stand for re-election. In the meantime, Argentina's fragmented opposition has failed to form a united front against the government despite winning control of Congress in last year's mid-term election.

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a share that had dropped to 1 percent by 2008. While IMF loans to Latin America stood at US\$48 billion in 2003, they dropped to less than US\$1 billion before the crisis. With the onset of the crisis, three Central American countries, Mexico, and Colombia have applied for loans. However, the crisis has not changed the long-term trend, which has been favoured by booming commodity markets. While most countries paid off their debts, Argentina is also refusing to follow precedent and go back to the IMF in order to renew negotiations with the Paris Club. Reversing the trend from borrowers to lenders, in June 2009 Brazil,

**[M]ost Latin American governments have consistently resisted engaging in IMF credit programs.**

Russia, and China announced that they would buy IMF bonds in order to reduce their dependence on the US dollar and diversify foreign currency reserves.

If meaningful IMF reform continues to prove politically difficult, the relevance

of these decentralized financial and monetary arrangements might grow. Not only would they permit decentralization and greater pluralism in international financial governance, they can also contribute to global stability by reducing the United States' burden to provide liquidity to the world economy. They might also throw some useful sand into the entirely free-flowing regime of finance. Paradoxically, the IMF might be forced to turn away from the former highly indebted developing world to the newly highly indebted European countries if voluntary debt markets turn thumbs down on them. 

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### ENTER THE HEADWIND

The universal child allowance implemented in October 2009 has been a measure with high positive impact on public opinion. However, it will cost about ARS 8 billion in 2010, equivalent to 6 percent of the monetary base. On the one hand, the universal child benefit may be seen as major policy with distributive effects. On the other hand, it may be seen as a way of catching up with inflation, or even worse, as a policy that simply fuels further inflation. However it is identified, the government is caught in a race between rising prices and social spending. Thus, inflation and the fiscal deficit are the two most serious challenges CFK will have to face in the short term. The question is: How long can the government continue to fund increased public spending without going to the international financial markets?

### INFLATION: THE BIG UNKNOWN

The other question is: How much inflation can be tolerated next year? Inflation is a particular concern for CFK's government because it has a larger impact on the poor, who make up her support base, and this could weaken her politically. Public spending is surging at a rate of about 30 percent, and analysts say the

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use of central bank reserves to service debt is also stoking inflation. On the other side, opposition proposals in Congress to hike pensions and cut controversial taxes on grains exports would strain the budget and could trigger a controversial presidential veto.

### HER RUNNING BATTLES WITH BIG BUSINESS AND THE MASS MEDIA

The picture gets more complicated when media and business enter the scene. CFK has been at odds with the Clarín media group for two years. She stepped up her drive against the conglomerate by accusing Clarín and its competitor La Nación of plotting with the military junta to buy leading newsprint supplier Papel Prensa in 1976. The government rescinded the broadcast rights of Clarín's paid-up TV sports channel to air live Argentine first-division football. State-run television has taken over and broadcasts all matches for free. Second, the

government announced that another Clarín company, Fibertel, could no longer operate as the Internet supplier to its more than one million users because it did not have, and had never had, a licence to do so. No doubt the battle against the media groups Clarín and La Nación will only intensify in the run-up to next year's presidential elections.

In short, the road ahead looks rough and rocky, with global and domestic trends pushing in different directions. Add to this a fragmented opposition and the confrontational style of the Kirchners, and what you have is a very uncertain picture. Will she be able to bring together fortune and virtue without him? 

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