

BTI 2008 | Argentina Country Report

Status Index	1-10	7.34	# 26 of 125	
Democracy	1-10	7.85	# 26 of 125	➔
Market Economy	1-10	6.82	# 32 of 125	➔
Management Index	1-10	5.91	# 33 of 125	

scale: 1 (lowest) to 10 (highest) score rank trend

This report is part of the Bertelsmann Transformation Index (BTI) 2008. The BTI is a global ranking of transition processes in which the state of democracy and market economic systems as well as the quality of political management in 125 transformation and developing countries are evaluated.

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Key Indicators

Population	mn.	38.7	HDI	0.86	GDP p.c.	\$	12,704
Pop. growth ¹	% p.a.	1.0	HDI rank of 177	36	Gini Index		51.3
Life expectancy	years	75	UN Education Index	0.95	Poverty ³	%	17.4
Urban population	%	90.1	Gender equality ²	0.70	Aid per capita	\$	2.5

Sources: UNDP, Human Development Report 2006 | The World Bank, World Development Indicators 2007 | OECD Development Assistance Committee 2006. Footnotes: (1) Average annual growth rate 1990-2005. (2) Gender Empowerment Measure (GEM). (3) Percentage of population living on less than \$2 a day.

Executive Summary

By winning the mid-term congressional elections of 2005, Peronist President Kirchner strengthened his political position and thus capitalized on several successes, including a third straight year of economic recovery, a successful debt arrangement with foreign investors, and his efforts to address the human rights violations perpetrated under the former military dictatorship. Instead, many of his promised reforms were not carried through, his relations with the media remained tense, and his foreign policy continues to be contradictory and provocative. Argentina maintained its earlier levels of stateness, but the state's monopoly on the use of force, especially in Buenos Aires, has been compromised by organized crime and the privatization of security. Political participation diminished step by step with the economic recovery. Until now, new forms of direct participation could not be transformed and channeled towards established mechanisms of representative democracy. President Kirchner enjoys high acceptance ratings, but distrust of the political establishment, including political parties, the judiciary and trade unions, remains. Voter participation, which reached its lowest levels in the October 2001 election, returned to normal in 2003 and 2005. The government undertook initiatives to combat corruption, reform the judiciary system and focus more attention on human rights violations, but the scope of corruption and deficiencies in the judiciary have not changed significantly. The party system continues to be fragmented, and non-Peronist parties have neither substantial political weight nor clear alternative programs. All parties place short-term power interests above political and democratic reforms. The party elites have learned little from the crisis of representation. The parties' deficiencies in articulating and aggregating interests have led social actors to impose their interests directly through various forms of protest. Civic organizations are robust while organized labor's influence continues to diminish. Indigenous people are largely neglected. Women participate actively in politics and have the same rights in the labor market, but they are the group most affected by

economic and social crises. The autonomy of the Supreme Court of Justice was reinforced, but the relationship between the executive, legislative and judicial branches is unbalanced and favors executive power. Kirchner's highly autocratic government has aggravated this imbalance. The penal code was changed, but police misconduct continues, torture is endemic, and prison conditions are substandard. Argentina enjoys some of the highest levels of support for democracy in Latin America; approval of its functionality is low but on the rise. In some segments, institutional stability improved or did not change, whereas social integration continues to be a challenge. On the economic front, Argentina's rapid recovery continues. The institutional framework for working toward a market economy has not changed significantly. Growth and inflation rates progressed significantly, as well as export and import rates. Overall, economic development has improved both quantitatively and qualitatively, but is limited in some indicators. Progress regarding investments, unemployment and tax revenue has been modest. Effective macroeconomic management, focused on the generation of a primary fiscal surplus, contributed to pro-poor growth. Tax revenues have increased substantially and unemployment has fallen. A debt arrangement with foreign investors and the IMF, as well as Venezuela's bond purchase of more than \$500 million, improved Argentina's financial position. Key social indicators have also shown steady improvement. Poverty rates have abated since the worst of the crisis, but remain at 34% above levels prior to the beginning of the recession in 1998. The gap between the rich and the poor is broad. In general, democracy seems to be more consolidated today than it was four years ago, but it is still too early to tell. The economic recovery has little basis in structural foundations and is still too dependent on volatile internal and external factors. It is difficult to judge whether the Argentine democracy and its market economy are headed down the path of sustained development.

History and Characteristics of Transformation

Throughout the 1990s, Argentina had been widely hailed as a case of successful market reform under democratic government. The radical economic transformation undertaken by the government of Carlos Saúl Menem in his first term (1990 – 1995) ended hyperinflation and restored economic growth. International financial institutions considered Argentina, with its rigorous implementation of prescribed policies, as the poster child of the neoliberal adjustment policies under the "Washington Consensus." Elections were free, civil liberties were broadly protected, and the armed forces, which had toppled six civilian governments since 1930, suffered substantial cuts in their budgets and largely disappeared from the political scene. Yet in 1998, Argentina entered a recession, culminating, at the end of 2001, in an extraordinary economic, political and social crisis. At the end of 1990, the Alliance for Jobs, Justice, and Education – a coalition of the centrist Radical Civic Union (UCR) and the center-left

Front for a Country in Solidarity (FREPASO) – appeared to offer a viable alternative to Menemism. Yet the De la Rúa government failed to deliver on both the political and economic fronts. On 18 and 19 December 2001, Argentina exploded into a wave of rioting and protest. The government unleashed brutal police repression, resulting in at least two dozen deaths. De la Rúa resigned on December 20. On 1 January 2002, Congress elected Justicialist Party (PJ) Senator Eduardo Duhalde as Argentina's third president in less than two weeks. Confronted with a massive civic rebellion rallying behind the slogan "throw everyone out" ("que se vayan todos"), the new government's first move was to end the monetary convertibility system. Within a few weeks, the peso lost more than 70% of its value, triggering fears of hyperinflation. The economy fell into a full-scale recession, the banking system collapsed and economic activity grounded to a halt. At the same time, democratic institutions were near the breaking point, and hostility toward the political elite and social protests grew to such proportions that there was talk of military intervention. After police killed two protesters in June 2002, a badly weakened Duhalde was forced to cut short his own mandate. Finally, presidential balloting was rescheduled for 27 April 2003. Contrary to expectations, the elections went smoothly and participation was strikingly high. Menem won 24.5%, Kirchner 22.4%, López Murphy 16.4%, Rodríguez Saá 14.1% and Elisa Carrió 14.1%. The PJ candidates won the two first places with 81% of the vote. The UCR suffered a devastating defeat. Their candidate won a paltry 2.3%. In the second-round elections, the polarization that had benefited Menem in the first round turned dramatically against him. Having won the first-round vote, he dropped out of the second round, handing the presidency by default to Kirchner. Argentines from across the political spectrum had voted massively against a return to the past. The widespread anti-Menem effect and support from Duhalde were the keys to Kirchner's success. The survival of Argentina's democracy and market economy after the profound crisis of 2001 – 2002 was, in any event, a striking and underappreciated outcome. The Argentine government has thus proven surprising robust, and its citizens have demonstrated high levels of tolerance and democratic maturity. Since the elections of 2003, Argentina has been undergoing progressive recovery. The new government has concentrated its efforts on reviving the economy and has achieved remarkable success. His position was reinforced after the parliamentary elections held in October 2005 for the renewal of half of the Congress and one-third of the Senate. His Frente para la Victoria (FPV) attracted 39% of the vote countrywide. His Peronist rivals, running under the PJ's platform, attracted only 9.5% percent. The opposition UCR mustered 15% of the vote. Kirchner could now claim the undisputed leadership of the Peronist movement, no longer having to share this with his predecessor, Eduardo Duhalde. Kirchner embarked upon the reform of key institutions such as the judiciary, the police and the army, launched important initiatives aimed at protecting human rights and fighting against impunity, and has made the strategic partnership with Brazil and integration into Mercosur his key foreign policy priorities.

Transformation Status

I. Democracy

1 | Stateness

The state's monopoly on the use of force prevails throughout the country and is not seriously disputed by functional organizations. The military does not infringe upon the civilian use of force. Federalism and so-called new security challenges sometimes restrict the state's monopoly on the use of force; in the poorer provinces, shortages in funding and personnel have limited the state's ability to act effectively. At the same time, increasing violent crime and the emergence of private security services threaten to erode, or worse yet to overwhelm, the state's monopoly on the use of force in urban centers. Argentina is a signatory to several UN Conventions on narcotics and participates in the "Inter-American Committee against Terrorism," which includes technical evaluation, training and other joint activities. However, Argentina has failed to produce evidence of increasing efforts to combat trafficking, particularly in the key area of prosecutions. Some progress was made in other areas, by submitting anti-trafficking legislation to congress in August 2005 and sensitizing provincial and municipal government officials to the trafficking problem. A last area "beyond the law" is the illegal immigration of women and children, who are exploited for sex and labor. These victims typically come from rural areas, but they also come from the neighboring countries of Paraguay, Bolivia, Colombia, the Dominican Republic and Chile.

Monopoly on the use of force

Relevant groups in society do not contest the definition of citizenship, the legitimacy of the nation-state, or the validity of the state's constitution. There are some exceptions. One is the alarming growth of anti-Semitic incidents and the dissemination of racist literature. Kirchner has tackled this problem actively in different ways. The civil rights of indigenous people, including the Mapuche in the south and the Tobas and Kolas of the north, are also an issue.

State identity

Basically, the state is defined as secular order. Church and state are separated, and the political process is secularized. However, the Catholic Church is subsidized by the state and speaks with authority on important issues. But its political influence has diminished under Kirchner, who has a tense relationship with the

No interference of religious dogmas

Catholic Church. President Kirchner and the Catholic Church have clashed on the issues of abortion, sexual education, human rights violations and poverty.

The state's fundamental infrastructure extends to the entire territory of the country, but it operates somewhat deficiently. In the 1990s, there were various efforts to reform the inefficient and corrupt national administration, but the reform goals were only partially achieved and some gains were later reversed. The political administrative network and political parties channel public funds, but the distribution follows particularistic, clientelistic and non-transparent criteria. The weakness of the state and its institutions is especially apparent in its inability to prevent rampant tax evasion, which is one response of the population to the *corralito* (freezing of bank accounts in 2001). Tax evasion is also indicative of the population's general mistrust of the public sphere and prevailing rules of the game among the political class. The second generation of structural reforms has been postponed since the 1990s, and although international financial agencies have urgently demanded their implementation, there has been no progress on this front. The public sector's efficiency has not increased substantially.

Basic
administration

2 | Political Participation

There is universal suffrage and the right to campaign for office. Elections are administered correctly. With a few exceptions, especially at the provincial level, governments respect the rules that govern open and competitive elections. Some isolated attempts to manipulate elections were cleared up and/or at least morally sanctioned. General elections are held and accepted in principle as the means of filling leadership positions. The percentage of absentee votes, blank votes and protest votes decreased considerably in the presidential and parliamentary elections of 2003, and dropped further in the 2005 elections. According to the *Latinobarómetro 2006*, the perception that elections are conducted properly has slightly decreased from 51% in 2005 to 47% in 2006. Sixty-nine percent of those interviewed were convinced that their votes have a genuine impact.

Free and fair
elections

Elected representatives have sufficient authority to govern, and the influence of actors with veto power has declined. The president, with his autocratic government style, successfully defended himself against interest groups such as the military, the industrial sector, trade unions, privatized public companies, the banks and the Catholic Church. This sometimes damaged the president's relationships with these interest groups. However, the government reacted to union demands for wage increases in 2005 and 2006 with a more flexible line than before. Relations between Kirchner and Argentina's entrepreneurs have improved with the recovery of the economy. The relationship between the government and agribusiness is more complicated due to high export taxes.

Effective power
to govern

However, none of these actors has any real veto power.

Citizens are free to establish political and civic organizations. Beyond the established forms of interest group articulation, there was an emergence of basic organizations, self-help groups, and other forms of protest. With a few exceptions, the government reacted with flexibility.

Association /
assembly rights

Freedom of information and freedom of speech are safeguarded. However, effective access and monopoly controls are absent, particularly in television, which is dominated by a few companies. On the whole, the media enjoys a good reputation. One result of the political crisis has been the media's ability to establish itself as both a stage for and a principal actor in politics. The relationship between Kirchner and the conservative sector of the press, including the newspaper "La Nación," has deteriorated. Kirchner has criticized, in an offensive manner, the lack of pluralism, the corporatism of the media and the absence of journalistic self-criticism. In January 2007, Human Rights Watch praised the full liberty of the media in Argentina, but they also criticized Kirchner's media policies and recommended that he put a stop to the favoritism that has defined his approach to media law.

Freedom of
expression

3 | Rule of Law

During the 1990s, the balance of power between the three branches of government has clearly shifted in favor of the executive, resulting in "presidential hegemony." The judiciary has become increasingly politicized and governance by decree has become common practice. Legal infringements of every sort generally go unreported. Although Kirchner has taken some important initiatives concerning the balance of powers, his administration is very autocratic, usually choosing not to coordinate with the members of his cabinet and his own party, the PJ. His and his wife's influence in parliament is highly visible in the legislation process, in the nomination of judges for the Supreme Court of Justice and in decisions about the commission memberships within Congress. Kirchner governs mainly by decrees, without any protest from members of parliament, even though Kirchner no longer has emergency powers.

Separation of
powers

Kirchner made some moves toward a more independent and reformed judiciary. He pushed for the resignation of the Supreme Court's president and reformed the process of nominations, which until recently were non-transparent and dominated by the president. On the other hand, Kirchner himself also influenced the nomination process for the Supreme Court. He impeached two justices and forced the resignation of another pair, effectively destroying the so-called "automatic majority" of ex-president Menem. In 2006, a reform law reduced the composition of the court to its "historical" five members; the seven sitting judges, however,

Independent
judiciary

remained in office, and the number will be reduced to five by future vacancies. The new court has supported the government's resolution of issues such as the Corralito, the pesoification of dollar-nominated debt, the renegotiation of existing privatization contracts with owners, and measures that prohibited evictions and protected debtors. As a result, investors have little confidence in the rule of law, particularly with respect to property rights. The gap between expected and real rule of law remains wide. Only 29% of the public has confidence in Argentine jurisprudence (Latinobarómetro 2006). All political and administrative levels are vulnerable to corruption and political influence. The weakness of the rule of law is combined with a system of privileges that violate the principle of equality. The system lacks on transparency, efficiency and neutrality. Aside from the changes in the Supreme Court, the government plans to introduce changes in the criminal justice system, to create courts for tax evaders, and to decentralize the courts in order to bring them closer to the people. Until now, however, few of these reform projects have been realized. The reform of the justice system as a whole will require a long-term commitment and sustained effort.

Argentina has high to very high levels of corruption. The increasing perception of corruption and impunity since the Menem years has adversely affected public trust and undermined the credibility of political parties and democratic institutions. Similarly, corruption and a lack of juridical security are viewed as important obstacles for private investment and ultimately for economic growth. The fight against corruption figures prominently in President Kirchner's public interventions, who attacks endemic corruption, but only with partial success. Only one in five Argentines believes in the fight against the corruption. Political parties, legislators, the police and the judicial system are perceived as the most corrupt institutions. Abuse of office by elected officials usually goes unpunished. The excessive use of legislative competencies by the executive is often criticized. Nepotism in the provinces, the eternal temptation of the governors, is still endemic. The obstacles that prevent the efficient prosecution of corruption are not moral or legal, but are rather a set of informal practices that discourage, break or frustrate an effective investigation.

Prosecution of
office abuse

Civil rights and liberties exist and are guaranteed, but since both the police and the judiciary are politicized, corrupt, poorly paid and inefficient, legal action against violations is usually inadequate. The excessive use of force by police and other security forces has been reported as a recurrent problem. The situation in jails is also problematic due to severe overcrowding and the poor quality of basic services. In addition, torture continues to be a serious issue in prison and detention centers. Excessive use of police force against public demonstrators and the arbitrary arrest of citizens have also been common in the recent past, reaching its peak in the turmoil of December 2001. The Kirchner government is trying to address these issues. For example, it has handled demonstrations and piqueteros'

Civil rights

activities without using undue force. Despite an adequate legal framework, the response by the judicial system to human rights abuses is still poor. The national and provincial governments have failed until now to change the prevalent culture in the security forces, which have committed human rights abuses. Another problem is the economic and sexual exploitation of children. The last ILO report found that child labor has increased spectacularly, growing six-fold in a few years as a consequence of the economic crisis. Moreover, the ability of citizens to seek redress for violations of liberties is unequally distributed. Members of the middle and upper class have more access to justice than members of the lower classes. However, Kirchner has embarked on a series of efforts to address past human rights abuses, and his progress in this area is quite remarkable. He has discharged some high-ranking military officials, radically restructured the military and police hierarchies, maintained a strong relationship with the human rights movement, transformed the ESMA, an ill-famed center of torture under the military regime, into a historic museum and opened the archives of the military regime. Finally, the Supreme Court ruled seven to one against the “Full Stop” law (Punto Final) and the “Due Obedience” law (Obediencia Debida), which were partly backed by high-ranking army officers. This means that hundreds of military officers could now face trial. All of this has elevated public sympathy for the president.

4 | Stability of Democratic Institutions

After the near breakdown of democratic institutions at the end of 2001 and the first half of 2002, democratic institutions, including the administrative system and the judiciary, have recovered step by step. However, their effective functioning is not guaranteed and their interrelationships are not entirely smooth. On the cabinet and ministerial level, the process of coordination is very weak. Kirchner monopolizes the decision-making power and gives his colleagues in the cabinet little margin for action. The president governs through decrees, and the loyal PJ majority in both chambers gives him the necessary backing. The executive makes use of exceptional powers that were ceded from the Congress to the jefe de gabinete, who can, among other delegated competencies, modify the budget. This power is a relic of the Duhalde government, and is comparable only to the extraordinary power of the nineteenth-century governor Juan Manuel Rosas. The system of formal and informal incentives ensures that obstruction of the government is more profitable for the opposition than cooperation. The electoral system has the same effect. The rebirth of provincial power, linked with the weakening of the party system, has produced a redistribution of political power, with considerable consequences for governance. The “localization” and decentralization of politics emerged without the parallel development of a solid party system and institutional mechanisms that form a countervailing power to

Performance of
democratic
institutions

these centrifugal tendencies.

The relevant actors accept the democratic institutions as legitimate, but do not always actively support them. The slogan of December 2001, “throw everyone out,” has disappeared, but the mistrust of democratic institutions, their ability to be representative, and their performance, has not disappeared. One exception from the generalized mistrust of democratic institutions and representatives is President Kirchner, whose popular support continues to oscillate between 60 and 70%. There are no organized veto powers.

Commitment to
democratic
institutions

5 | Political and Social Integration

The systemic crisis of 2001 – 2002 had a profound effect on the party system. Even though the Peronist voter base is relatively stable, the system as a whole suffered a partial collapse. The degree of fragmentation is high, and the weight of the different “players” is very unbalanced. The UCR is fighting for survival and is in disarray, with the majority of the UCR governors and the most important UCR mayors in alliance with Kirchner, while the national leadership of the UCR has maintained its opposition strategy. The parliamentary elections, held on 23 October 2005, gave Kirchner a majority in the two chambers. The Kirchner-Duhalde rivalry, which broke out in the 2005 election campaign and was described as “irreversible” by most local analysts, has lost steam since the elections, though it has not definitively disappeared. After the heavy defeat of the duhaldistas in the October elections, Kirchner succeeded in sidelining Duhalde. Smaller parties, such as the center-right Propuesta Republicana (PRO) and the more leftist-leaning Afirmación para una República Igualitaria (ARI), occupy different positions on the political spectrum, and are active only in certain provinces. The president is head of his Frente Para la Victoria (FPV) coalition party, which includes Peronists and non-Peronists aligned with Kirchner. The result is a de facto single party government; one could even call it a movement. The weakness of the opposition, comprised of the non-Peronist votes and parties, might have negative consequences for the democratic process. The PJ has a virtual lock on both the Senate, in which all provinces are represented equally, and the majority of governorships.

Party system

The existing network of associations is relatively fragmented and dominated by a few strong interest groups. The political influence and the mediating capacity of the industrial and financial sector, as well as of the trade unions, diminished during the period under review. The established channels between organized interest groups and the executive were interrupted during the crisis of 2001 – 2002. Kirchner, with his propensity for unilateral autonomous decision-making, only partially restored these relationships. The leading role in the protest movement of 2001 and 2002 was not played by the trade unions, but rather by the

Interest groups

piqueteros, escraches and cacerolazos. The weight and acceptance of these basic forms of protest, political articulation and self-help in vast segments of the society, and the rise of alternative trade unions, threaten increasingly the hegemony of the established trade unions. Additionally, the image of the trade unions as corrupt organizations has by no means disappeared. For many people, the trade union bosses are part of the political establishment and were included in the slogan, “throw everyone out.”

According to Latinobarómetro 2006, 85% of Argentines, up from 76% in 2005, are convinced that democracy is the best political system, which is 11 points above the Latin American average. Also, support for democracy is high at 81%, up from 70% in 2005 and well above the Latin American average of 58%. Satisfaction with democratic performance also grew significantly during the period of review, from 8% in 2002, to 34% in 2003, to 50% in 2006. Satisfaction with Kirchner’s political performance is at 73%, the highest in Latin America and well above the average of 54%. Political protests target the political class as a whole, but do not tend to call into question the constitutional framework. Argentines are unsatisfied with other elements of their government. Only 35% are satisfied with Congress, 29% with the judicial system, and only 15% with the political parties, the second worst rating in Latin America. Only 22% of Argentines claim to discuss politics, and 4% claim to work for a political party, the lowest ranking in Latin America. Readiness to participate in a licensed demonstration (9%) and to subscribe a petition (14%) is also very low.

Consent to
democratic
norms

Since the 1980s, civil society has been broadly organized and highly differentiated. Self-organization and the construction of social capital advanced. But, while new social actors cooperate on the local level, where more than one-third benefits from horizontal social networks, their relationships with parties, parliament and the government are marked by distance and confrontation. However, for the medium term, these forms of civil organization will not be able to displace the aggregating and mediating functions of the parties, just as little as social networks can compensate for an articulate social policy. The renewed dynamism of civil society as a provider of services due to the retreat of the state helps to explain why Argentine society has been able to resist the recent social and economic collapse without a more violent social outburst. The impact of civil society organizations is remarkable in terms of human resources mobilization on a voluntary basis (2 million in 2004, equivalent to 10.3% of working population) and contribution to GDP (5%). The Kirchner government has launched a program to facilitate dialogue and consultation with civil society in order to agree on an agenda to promote political reform. Moreover, Kirchner launched a strategy of inclusion with respect to the piqueteros, thereby splitting the movement and considerably reducing its influence. In terms of social capital, Argentina remains just within the bounds of the law. Fundamental social norms are poorly

Associational
activities

developed. Instead, rule-flouting individualism and interest groups determine behavior, and increasing poverty threatens to further erode their very foundations. Mutual confidence is still underdeveloped, although it has advanced with the economic recovery last years. It remains to be seen whether new forms of horizontal solidarity, self-help and articulations of basic democracy can survive and be utilized through the political parties for constructive responses. Thirty-eight percent of Argentines are convinced that social mobility exists, but only 18% believe that all citizens have the same chance to escape from poverty.

II. Market Economy

6 | Level of Socioeconomic Development

Key social indicators have dramatically worsened since the second half of the 1990s, but they improved slightly in the period under review. Poverty has decreased, but with an urban rate of poverty hovering around 34%, poverty remains higher than the level prior to the onset of the recession in 1998. While one in every three poor Argentines has escaped poverty during the last three years, income inequality and the scope of the subsistence economy remains a challenge. Due to their dependence on subsistence production, a large share of the population tends to be excluded from market-based socioeconomic development.

Socioeconomic
barriers

Economic indicators		2002	2003	2004	2005
GDP	\$ mn.	102,040	129,597	153,129	183,193
Growth of GDP	%	-10.9	8.8	9.0	9.2
Inflation (CPI)	%	25.9	13.4	4.4	9.6
Unemployment	%	19.6	15.6	-	-
Foreign direct investment	% of GDP	2.1	1.3	2.8	2.6
Export growth	%	3.1	6	8.1	13.5
Import growth	%	-50.1	37.6	40.1	20.1
Current account balance	\$ mn.	8719.7	8064.5	3445.6	5788.8

		2002	2003	2004	2005
Public debt	\$ mn.	92,904.8	99,894.3	104,111.1	61,951.7
External debt	\$ mn.	150,812.5	166,788.1	169,508.2	114,335.1
External debt service	% of GNI	5.6	11.8	8.9	6
Cash surplus or deficit	% of GDP	-5.7	-2.8	-0.5	-
Tax Revenue	% of GDP	9.8	12.5	14.2	-
Government consumption	% of GDP	12.2	11.4	11.1	11.9
Public expnd. on edu.	% of GDP	4.0	3.5	-	-
Public expnd. on health	% of GDP	4.5	4.3	4.4	-
R&D expenditure	% of GDP	0.4	0.4	-	-
Military expenditure	% of GDP	1.1	1.2	1.1	1.0

Sources: The World Bank, World Development Indicators 2007 | UNESCO Institute for Statistics | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security

7 | Organization of the Market and Competition

The key conditions for an orderly market economy exist in Argentina. The use and transfer of profits is free. There are uniform rules for all market participants, but they are weakly anchored in institutions and not sufficiently internalized by all market participants. Free competition and the protection of property rights are limited by corruption and political influence in the administration and the judiciary. According to figures from 2004, only 16% are satisfied with the functioning of the market economy, 54% are convinced that private enterprises are important for the development of the country, and 56% think only a market economy will enable development.

Market-based
competition

The privatization of public services led to the formation of monopolies and oligopolies, without adequate regulation mechanisms. In March 2005, an OECD report criticized the government's anti-monopoly politics, first of all the underfunded and insufficiently independent Comisión Nacional de Defensa de la Competencia (CNDC). "A culture of competition did not take root in the country," claimed the OECD report, recommending the creation of a "Tribunal for the Defense of Competition." This idea has been rejected by the government, which believes that such an organization would be incompatible with the creation of large firms that can compete at the regional level.

Anti-monopoly
policy

Foreign trade is liberalized in principle, but in the case of Mercosur, it has resulted in multiple protectionist measures and trade disputes, particularly with Brazil, Argentina's most important trade partner. Even though a court for dispute settlements was established in 2004, protectionist measures and trade disputes did not disappear. For some products, such as beef, there are export restrictions. Abandonment of dollar-peso parity at the end of 2001 led to a slump in imports and investments. Growing export volume, resulting from massive depreciation, helps to sustain the current recovery. The current comparative advantage resulting from the favorable exchange rate is also fueling re-industrialization. Argentina is therefore trying to improve its international market access and is currently negotiating several trade agreements (EU, NAFTA, FTAA, Peru, etc.). In the long run, however, Argentina needs more than just export growth. Structural reform, as well as a profound improvement of the general investment and business climate, appears indispensable.

Liberalization of
foreign trade

The banking system and capital markets are relatively well-differentiated, but only foreign banks are internationally competitive and meet international standards. The banks remain susceptible to broad fluctuations because of their substantial dependence on external capital. Privatization and liberalization brought mergers and oligopolistic formations, as well as company and bank collapses. The economic breakdown in 2001 – 2002, including the default and drying up of foreign capital, produced a banking system collapse. Many banks experienced losses in 2003. Some private banks closed and some international banks left. In early 2004, the government established measures to compensate banks for the asymmetric indexation of assets and liabilities. The volume of credit stagnated despite the economic recovery and has not reached pre-crisis volumes. Meanwhile, the banking system is more solid, banks have returned to profitability and credit in pesos from local financial institutions to the private sector grew a real 56% between June 2003 and June 2006. The central bank has doubled its reserve funds. However, the financial resources necessary for stronger development require that the banking system and capital market be strengthened further.

Banking system

8 | Currency and Price Stability

Argentina's economic policy goals include controlling inflation and implementing an appropriate foreign exchange policy. The anti-inflationary strategy is based on stabilizing the macrobalance and checking the pressure on the price of certain goods such as beef. Instruments include making agreements with producers and intermediaries or limiting beef exports to maintain supply levels for the domestic market. Since the onset of high growth rates in 2004, fears of increasing inflation rates have re-emerged. The central bank's monetary policy

Anti-inflation /
forex policy

supports a competitive peso, but inflation, at 12.3% in 2005 and 12.7% in 2006, remains a concern. Due to policies that stimulate consumption, the growth of inflation is not only related to the speculative increase in prices by business, but also to the unions' demands for salary increases, to which Kirchner is more receptive.

There are some signs of a consistent policy for stability, but they are insufficient and lack sound institutional safeguards for the future. There are no political or institutional bulwarks against risky policy changes motivated by populism. In February 2005, almost three years after the country went into default, Kirchner succeeded in arranging a surprising debt swap with the majority of Argentina's private creditors. This arrangement reduced the public debt stock by about \$67.3 billion and reduced public finance exposure to exchange risk, since around 44% of new bonds are in local currency. The new bonds' long maturity and low interest rates should make debt service manageable. There are ongoing arrangements with the private creditors who have not participated in the debt swap (around 24% of the debt, valued at \$25.255 million). In January 2006, the government paid its debts to the IMF. However, the benefits of this historic decision are hardly clear. The government was paying an interest rate of 4.2% on its IMF loans. It will repay the central bank, partly by issuing new debt, at around 9% interest. Another point of worry is the problematic reform of the financial adjustment mechanisms between the central government and the provinces, which the IMF has emphatically demanded.

Macrostability

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 because of deficiencies in the judicial and administrative system. The juridical security and the regime of contracts under the convertibility regime were unsustainable because they were based on an economic and financial regime linked with the dollar and macroeconomic imbalances. Property rights are not safeguarded adequately against political intervention.

Property rights

Private companies represent the backbone of the economy. The State Reform Law of 1991 privatized large portions of basic industry, infrastructure and other public services (sometimes below their true value). At the same time, significant segments of local industry were bought up by foreign firms. Privatization was accompanied by a series of corruption scandals and several undesirable side effects including mergers, monopoly formation, rising unemployment, shrinking real incomes, impoverishment of the middle class and increasing social inequality. The crisis of 2001 – 2002 motivated the government to freeze the tariffs of privatized public enterprises. This provoked conflict between the

Private
enterprise

government and the firms. While the government complained about the lack of investments, the companies demanded compensation for the revenues they lost as a result of the end of the dollar-peso parity. As a consequence, the country slipped into an energy crisis. In addition, the government revoked some concessions, including the postal service, the water sector and the management of telecommunication spectrum frequencies. It also declared that all contracts would be subject to revision. Finally, during the energy crisis of the first quarter of 2004, the government allowed some power tariffs to rise, but simultaneously created a public enterprise to provide cheaper energy to industry and consumers. Additionally, the *corralito* strongly violated private property rights and destroyed the trust in the state as guarantor of this right. The loosening of bank deposits since autumn 2002 has partially restored trust. Another sign of renewed confidence is the unexpectedly high participation of Argentine private investors in the new government bond deal. But it will be quite some time before the faith of local and international investors is restored. Many administrative barriers continue to discourage investment and increase costs for entrepreneurs.

10 | Welfare Regime

Social networks are developed, but do not cover all risks for all strata of the population. Considerable portions of the population live in poverty and have no access to social safety nets. What began as a government-sponsored welfare regime has been cut back in the spirit of neoliberalism. This new concept called for compensatory social services to accompany economic growth. Until now, the government could not combat poverty systematically. The social program *jefas y jefes* (with 150 pesos per capita), frequently misused for political objectives, cannot replace a structural social policy. However, program targeting has improved considerably in recent years. Social programs are increasingly incorporated in employment programs, indicating elements of real policies for both the labor market and the prevention of poverty.

Social safety nets

In order to reach the Millennium Development Goals, the growth rate in Argentina must reach an annual rate of 5% to be able to cut poverty in half by 2015 and reduce the percentage of the extremely poor from its current level of 9.1 to 4%. Only 19% of Argentines are convinced that all people have the same opportunity to escape poverty (Latinobarómetro 2006). Since the crisis of 2001 – 2002, the chance of escaping from disadvantageous situations for persons from underprivileged households – in terms of income, employment, education, housing and other aspects – has diminished as the environment has become increasingly hostile towards those who do not possess strong cognitive abilities and social skills. The dearth of resources effectively traps individuals within a vicious circle of recurrent poverty in which disadvantages negatively reinforce

Equal opportunity

each other. Lack of funds has led to a drastic deterioration of the state health care system. The social welfare system model has consistently combined private and government funding for the common good, but both sides have run out of money since the exchange rate was floated. There are a number of institutions, government initiatives and basic organizations to compensate for wide social disparities; however, they are insufficiently financed, uncoordinated and disorganized.

11 | Economic Performance

During the period under review, macroeconomic indicators show that the Argentine economy has performed quite well. The most promising elements were the growth rate, budget balance, currency reserves, export growth, the employment rate and the development of the public debt. However, there were negative aspects as well. The inflation rate is trending upwards. The poverty rate remains high, and the rate of investment and saving are relatively weak. Growth depends mainly on the international market and a few export products. Investment in science and technology is insufficient. The structural basis for sustained economic development remains fragile.

Output strength

12 | Sustainability

A major environmental problem in Argentina is pollution, especially water pollution in urban areas due to harmful disposal practices and in rural areas where rivers are polluted by increasing use of pesticides and fertilizers. Twenty percent of urban residents and 83% of people living in the countryside do not have access to running water. There are several serious threats to the environment, including the overexploitation of vast mineral resources, erosion problems due to inadequate flood controls and inappropriate land use practices, the hole in the ozone layer above Patagonia and the South Pole, and the deterioration of irrigated areas and desertification. Though the goal of sustainable development was incorporated in Article 41 of the 1994 reformed constitution as the “polluter pays” principle, environmentally compatible growth receives only sporadic consideration and has a weak institutional framework. Moreover, the tight budget limits room to maneuver for environment protection. There is still no successful cooperation between the different levels of government in this area. Macroeconomic growth is unbalanced and only partially considers environmental concerns. Sustainability lacks strong institutional roots, and short-term growth objectives have taken precedence over sustainability considerations. Public environmental awareness is still underdeveloped, and punitive measures for infringements are more an exception than the rule. Finally, the country has still not formed a national environmental policy, and existing environmental laws are

Environmental policy

often not enforced because of a lack of adequate control mechanisms.

Together with Uruguay and Chile, Argentina ranks at the top of education indices in Latin America and has the best enrollment ratio. The country has a well-articulated system of primary and secondary education, but this is increasingly underfunded. The same holds true for the otherwise well-developed public university system, which has been complemented by a network of private universities since the 1980s. The structures necessary to administer the school system efficiently can only be developed in a few provinces, and the widening quality gap between rich and poor provinces is spawning a disturbing development. The public expenditures for education and culture amount to \$3.3 billion, or 6.4% of the public budget. Despite shortcomings in reform, the foundations for a modern educational system exist. However, the country is still far from having an independent and elaborate science and technology policy. The majority of national enterprises focus on increasing profit rather than innovation. The wretched state of the economy has resulted in a massive “brain drain” which, in turn, impedes the country’s development chances even further.

Education policy
/ R&D

Transformation Management

I. Level of Difficulty

The structural constraints on governance have been moderate since the political and economic recovery that began in 2002. Several developments have improved the conditions for government performance: the majorities in the two chambers of parliament, the fortuitous performance of the international economy (including high raw material prices, a weak U.S. dollar, the recovery of the world economy and most Latin American economies after three years of stagnation and recession, and debt arrangements), Kirchner's high popularity, and the fragmented and weakened opposition. Finally, the results of the 2006 elections in the region bolstered the pragmatic center-left-governments in the Cono Sur. Aside from the high rate of poverty and the extent of the informal economy in urban areas, there are no major structural constraints.

Structural
constraints

Argentina has a moderate tradition of civil society. Civil society organizations played an important role during the transition period from authoritarian to democratic government. However, with the strengthening of the two major political parties, the PJ and the UCR, the political influence and weight of those organizations diminished. Nowadays, the field is very fragmented and the objectives are very diffuse. In the context of the 2001 – 2002 crisis, new civil society organizations have increasingly emerged as important actors. Many of their activities were spontaneous and poorly organized, focusing on day-to-day problems; others tried to answer the social demand for action against the rampant crisis and the political inadequacy to cope with it.

Civil society
traditions

There are no severe ethnic or religious cleavages. Division along social or ideological divides is moderate. As a consequence of widespread discontent with bad political management, society and the political elites remain somewhat polarized. Since the implementation of the radical reforms of the so-called "Washington Consensus" in the 1980s and 1990s, the historically important middle class has disappeared, increasing the gap between a very rich profit-seeking minority and the impoverished majority. The expansion of social inequality culminated in the 1980s and 1990s in different forms of social protest, such as rioting, street blockades and supermarket plundering. In 2001 and 2002,

Conflict intensity

they transformed into new social movements and forms of protest (piqueteros, cacerolazos), which, however, during the period of review, increasingly declined in intensity and violence. The majority of protests were peaceful, did not infringe the legal order, and were addressed by concrete government responses or isolated from the societal environment. Violent incidents were exceptions to an otherwise peaceful protest culture.

II. Management Performance

14 | Steering Capability

Duhalde's transition government was relatively successful, taking into account the absence of active external support and the fact that Argentina stood on the brink of anarchy. At the end of his term, incipient economic recovery and a restoration of social peace substantially improved public approval for the government. Medium- or long-term strategic priorities were not formulated. Duhalde's successor, Kirchner, devised some strategic priorities in the areas of institutional strengthening, judicial reform, human rights, transparency, the fight against corruption and reform of the political system. All of these priorities correspond to the deepening of the democracy and an economy with some Keynesian accents. Kirchner pursues long-term aims, but postpones them sometimes in favor of short-term political benefits.

Prioritization

Kirchner won 22% of the vote in the first round of elections, which undermined his legitimacy. However, he managed to achieve high public acceptance in just a short time. This has to do with his pro-active management of some of Duhalde's legacies. He brought a new generation of Peronists into his government and launched important political initiatives aimed at restoring public confidence. He distanced himself from the neo-liberal economic policies of the 1990s and implemented a solid debt arrangement with the majority of bondholders and with the IMF. He initiated a wide-ranging overhaul of the police, the PAMI, the judicial system, the penitentiary service and the armed forces, to improve efficiency and the level of transparency in these institutions. Beyond changes in the Supreme Court, Kirchner has undertaken additional measures to reform the criminal justice system, to decentralize the courts and create special courts for tax evaders. Other challenges were also successful, including an effort to end "the culture of impunity" with a series of measures, making it clear that Kirchner sought a sharp break with the past. With respect to the political system, the

Implementation

government has launched a consultation process with civil society. Other initiatives have not got ahead in the same successful manner. After Kirchner's clear victory in the October 2005 elections, he has continued the fight against corruption, the reform of the electoral system, the implementation of party financing controls, the reduction of the political costs of clientelism and making congressional performance more efficient and transparent.

The two post-crisis presidents, Duhalde and Kirchner, responded somewhat effectively to the mistakes and failed policies of the past. During the Duhalde government, damage control, short-term crisis management and, at the end, the presidential election campaign of 2003 dominated the political agenda, precluding targeted strategic thought and action. Kirchner, an anti-establishment politician, concentrated government action on a few priorities, sometimes against strong international opposition as, for example, in debt questions. Kirchner's government style is very autocratic, sometimes imperious, and rarely cooperative. His strategy – the so-called “transversalidad” – consists of building bilateral ad hoc coalitions outside of his own party, based on personal loyalty. His inner circle is limited to a select few. The ministers of his cabinet are, with few exceptions (Lavagna, for example) nearly superfluous. A majority of observers agree that the Lavagna's dismissal after the elections 2005 was a big political mistake with high political costs. Lavagna is now preparing his candidacy for the presidential elections of 2007. The victory of Kirchner's Front for Victory (FV) in the parliamentary elections of 2005 has consolidated his position within his party and allowed him to continue negotiating with Peronist power brokers without compromising his proven strategy of “transversalidad.” His wife, Cristina Kirchner, won the post of senator in the province of Buenos Aires, against “Chiche,” the wife of Duhalde. With his new strategy to build flexible coalitions within his own party (and beyond), the president surpassed the old strategy to ground his power almost exclusively in public opinion, rather than political coalitions.

Policy learning

15 | Resource Efficiency

The government's organizational, financial and human resources dwindled dramatically until 2002, when the economy turned around with a spectacular growth rate of 9% in 2004, up from -5.4% in 2001, and a balanced state budget. With the declaration of default (January 2002), the Duhalde and Kirchner governments gained a little more financial room to maneuver. The same happened with the debt arrangement with private creditors on February 2005 and the IMF on February 2006. However, the remaining debt burden of about \$125 billion is very high and offers only a modest margin for active public policies. The government's use of such opportunities was only partially efficient. The

Efficient use of assets

labor market situation continued to be unsatisfactory and as a consequence the brain drain continued. The ratio of government staff to public services has decreased since the reforms implemented during Menem's first term. Performance criteria have assumed a greater importance in hiring, promotion and dismissal, but patronage, clientelistic practices and tax evasion have not yet been eliminated. The erratic and sometimes abrupt personnel changes in the cabinet can also be seen as a waste of resources. A sustainable arrangement with the province governors remains one of the government's central problems. Financial auditing has improved, but neither the planning nor the implementation of the national budget is transparent enough. The battle against corruption suffers from poor transparency and accountability.

The government tries to coordinate conflicting objectives and interests, but has only limited success. The president's usual response to resurging conflicts with cabinet or party members is a decision from above or a non-decision. His strategy of co-opting potential adversaries was quite successful. The tendency to govern by decree, with the tacit or open approval of the parliament, was reinforced during the last two years. Potential intra-governmental frictions were nipped in the bud by the president. The number of conflicting issues between the president and the legislature was reduced. The opposition was too fragmented and weakened in order to provoke serious conflicts with the executive power and prevent government decisions. Some congressional members of the opposition supported the president with their votes.

Policy coordination

At all political and administrative levels there is vulnerability to corruption and political influence. The weakness of the rule of law is combined with a system of privileges violating the principle of equality. The system lacks transparency, efficiency and neutrality. The country is combating corruption, but only with partial success, as demonstrated by the scandal of drug trafficking in Ezeiza, the international airport of Buenos Aires, in March 2005. Although criminal prosecution of corruption appears to be a priority in the eyes of the public and was declared one of the priorities of the Kirchner government, it is an exception in actual political practice. Abuse of office by elected officials usually goes unpunished. On the long run, the new composition of the Supreme Court may permit more effective prosecution. The obstacles that prevent the efficient prosecution of corruption are not moral or legal, but are rather a set of informal practices that discourage, break or frustrate an effective investigation.

Anti-corruption
policy

16 | Consensus-Building

All relevant political actors agree that a market-based democracy should be Argentina's development goal, although ideas about the obstacles that will be encountered and the strategies that should be applied vary widely. The

Consensus on goals

acceptance of democracy as a political regime, preferable to all other regimes, is one of the highest in Latin America, and the high rates have been consistent despite the systemic crisis of 2001 – 2002. Widespread dissatisfaction is not a rejection of democracy or a sign of political apathy, but it has to do with poor performance. The gap between high rates of consent to democracy as a regime (70%) and discontent with performance and results was reduced during the period under review, but remains considerable at 20 points (BTI 2005: 50 points).

The fact that the approval of democracy continues to be very high, that there was no threat of a military coup after de la Rúa's forced resignation and that, in fact, constitutional procedures were followed meticulously, can be interpreted as a sign of Argentine democratic maturity, especially in light of its dictatorial past. The most important former veto players – the military, the trade unions, and the church – are seriously weakened. Relevant anti-democratic veto actors do not exist. Kirchner is quite able to make decisions, but his inclination to isolated action in domestic and foreign policy is risky. Additionally, the number of reformers in the political elite is low.

Anti-democratic veto actors

In the post-crisis years, both Duhalde and Kirchner tried to prevent cleavage-based conflicts from escalating, but only partially succeeded. Kirchner responded to social protests with a high degree of flexibility, moving between the implementation of a set of social programs, co-optation strategies and isolating the radicals (such as the piquetero movement). However, wide income inequality and political and social polarization were not reduced substantially, and these remain a challenge for governance. President Kirchner, after initially favoring a more conciliatory policy, has shifted towards a tougher policy regarding the piqueteros, a strategy that has begun to pay off. Not only has there been a clearly visible decline in the number of roadblocks and protest actions, but at least one big piquetero group – the MTD Aníbal Verón – has decided to abandon such actions altogether and seek talks with the government about an increase of unemployment subsidies, higher pensions and the re-nationalization of utilities. Politics remains relatively confrontational, but less so in the period of review.

Cleavage / conflict management

In his inaugural speech, Kirchner envisioned “a culture of dialogue” and sees himself as a president of a new era. Although the government has made various attempts to promote the population's sense of solidarity, it has failed to strengthen interpersonal solidarity and to transform existing social engagement at the local level into civic engagement for the strengthening of representative democracy. The civic and political engagement of the majority continues to be low. Kirchner prefers a populist top-down approach to urgent social, economic and political problems, which involves taking some spectacular measures to get popular support. Isolated presidential decisions, based on presidential decrees

Civil society participation

and with high popular support, will not be able in the long run to compensate for the deficient articulation, channeling and aggregation capacities of the political parties, or a parliament that takes its legislation and control functions seriously. The same is true of Kirchner's attacks against real or imagined "enemies," such as the IMF, journalists, or the international right-wing. The political leadership takes into account and accommodates the interests of civil society only in part and only when these organizations can put pressure on the government, or when they form part of the power base of the government and/or the leading party. Examples include the piqueteros and their influence in social issues, and the human rights movement's influence in military affairs as well as the question of Argentina's authoritarian past.

The political leadership has placed high priority on the issue of human rights violations and acts of injustice during past authoritarian regimes. By prosecuting former officers accused of violating human rights, the government has begun to close a symbolic chapter by distancing itself from the military regime. Two symbolic gestures, including the removal of the pictures of generals Videla and Bignone from the gallery of honor in the former military academy, and the transformation of the "Escuela Mecánica de la Armada (ESMA)," an ill-famed torture center, into a memorial site, underlined this policy in favor of human rights. Questions remain as to whether these in part radical measures will help to bring about a process of reconciliation between the victims and perpetrators of past injustices. Kirchner could gain broad public support with his courageous decisions in human rights affairs, but at the same time, the president was strongly attacked by military hardliners. Moreover, some of the witnesses in the first trials against officers have been attacked, or died under mysterious circumstances.

Reconciliation

17 | International Cooperation

The declaration of default in January 2002 provoked the country's isolation from most of its international partners. The dramatic economic, social and political situation forced political leaders to dedicate significant time and resources to crisis management at the cost of reform policies and an active foreign policy. Since the recovery of the economy in 2003, the government has, step by step, begun to reopen the country to the international community. Some foreign policy measures, such as the debt swap and Argentina's intimate relationship with Chávez, have shocked the northern countries. However, this did not prevent these northern states from normalizing their relations with Argentina and offering new investment and assistance programs. Courting a close relationship is, in Kirchner's view, unproblematic so long as Argentina's autonomy is not affected. Though controversial, Kirchner's cooperation with Chavez on energy

Effective use of support

and debt issues is clearly a strategic use of international support.

Regaining the international confidence after the shock of default was not a walk-over. Kirchner focused his foreign policy activities on a set of priorities with visible benefits for Argentina, such as a debt arrangement with substantial burden reduction, and economic deals with Brazil, Venezuela and a few extra-regional powers in Asia (China and India) in the area of commerce, investments and debt purchase. The first place was occupied by the integration process within Mercosur with Brazil. The time of the unconditional alliance with the United States ended. The relationship with this hegemonic power and Europe should, according to repeated declarations from Kirchner and his foreign minister, Bielsa, be based on mutual respect and the national interests. Additionally, Kirchner gives priority to the strengthening of multilateralism in the international politics and the UN system. The government maintained the default until the swap deal with private creditors, in February 2005, as well as an aggressive strategy against international creditors, above all the IMF, until the unexpected repayment of his debt on February 2006. The arrangement with the private creditors was a shock for the international donor community, though it was implicitly backed by the U.S. government (against the IMF-establishment). Through a round of official visits to the main creditor countries, Kirchner has intended to present himself as a credible partner, to gain international comprehension for his debt and foreign policy, and to receive international assistance for the internal reform process. These efforts have shown thus far only partial success. The president's verbal attacks against the FTAA and his advocates at the Summit of the Americas in Mar del Plata in November 2005, his uncritical break-up with the international trouble-shooter Chávez, his rigid stance toward Uruguay in the pulp-mill dispute and with Chile in the question of gas supply – all of these affairs have nourished doubts about Kirchner's actual ambitions with his new foreign policy and readiness to cooperate in the international arena. After a period of emergency measures (ECHO) as response to the crisis, the European Union has re-focused in his mid-term review 2004 their cooperation priorities in Argentina, now stressing the social sector. The key objective is to bring a contribution to the new government's efforts to ease the social crisis, but without forgetting the need for Trade-Related Technical Assistance (TRTA) and capacity building in relation to the EU-Mercosur ongoing negotiations and implementation of the future agreement.

Credibility

Kirchner has prioritized the strategic partnership with Brazil and the strengthening of Mercosur, notwithstanding continuing disputes with Brazil in the commercial sector, pulp-mill conflicts with Uruguay and gas-supply disputes with Chile. Kirchner was the most vocal advocate of Venezuela's application for Mercosur membership. His intimate and uncritical relationship with Chávez irritates the majority of his European partners and the U.S. government. Though

Regional cooperation

there are some issues between Argentina and its neighbors Brazil, Uruguay and Chile, there is an ideological affinity among the governments in the Cono Sur. Their pragmatism is also in favor of a constructive cooperation in advancing the Mercosur-process and expanding the south-south-cooperation beyond the region.

Strategic Outlook

Kirchner has succeeded in regaining the trust of the Argentines and the international community. However, the high popular support for Kirchner, the so-called “K-effect,” has not translated yet into an improved performance of the democratic institutions. Fortunately, there are no actors with anti-democratic veto powers. The new grass roots mobilization is, of course, a positive development for participative democracy. Nevertheless, whether or not established parties will manage to channel, in the long run, these new forms of direct political articulation and social protest in constructive directions, is an open question. It is also uncertain whether the highly fragmented party system, with a hegemonic yet fragmented Justicialist Party (PJ), will be maintained, or whether a moderate multiparty system will emerge as a stable foundation for coalition governments capable of compromise. Questions remain as to whether the presidential election in October 2007 will make this option more probable. Antagonism and patronage within the parties on the national and provincial level, as well as obstructive behavior, have not been eliminated.

The relationship between the party establishment and society is problematic. An additional problem is that the leading personalities in the political parties obviously have not learned sufficiently from the systemic crisis of 2001 – 2002. Since the victory of his Front for Victory (FV) in the parliamentary elections of 2005, Kirchner is the de facto leader of the PJ, but the party remains balkanized. The PJ’s fragmentation and the non-Peronist party spectrum, as well as the maintenance of clientelistic networks and personal rivalries impede innovative learning processes among the political elite. The internal battle for leadership within the Radical Civic Union (UCR) remains undecided. Kirchner’s strategy of “transversalidad” has been moderately successful. It is very probable that he will continue this strategy after an electoral victory, which seems likely at this point. He has broadened his support base beyond his party, both on the national and provincial levels. However, the relationship between the central government and the provinces remains precarious, and some governors are still rather powerful. The combination between parties, organized power in the provinces, and the lack of internal democracy favors clientelism and only permits ad hoc coalitions. One positive factor in a society with a traumatic past is the fact that the government has resolutely confronted the past and repealed the Due Obedience and the Punto Final Laws as unconstitutional, thereby opening the way for the criminal prosecution of all cases for which amnesty had been granted. A strong trade surplus and high growth rates are consequences of high prices for minerals and agricultural products in the world markets, a weak

dollar and a strong demand from the Asian economies, especially China. All of this can change rapidly. One of the main problems facing the Argentine economy is inflationary pressure caused by the restructuring of pricing structures, and a swift growth in demand that may lead to supply bottlenecks. The instruments used to control inflation include sector price agreements, setting export limits on certain mass consumer products and investment incentives. The future inflation rate will also depend on the development of wages and the negotiation of utility rates with privatized firms and public service providers. The ECLAC projections for 2007 are 5.6% to 6.0% growth of GDP, and an inflation rate of 12.3%. The debt burden was substantially reduced, but a large part of the debt problem (\$125 billion) is still in want of a solution. There are also a remaining 24% of private creditors who did not participate in the debt swap, who hold \$25 billion in debt. Structural problems such as poverty reduction, energy supply, and a science-based production structure are still unresolved, the industrial, technological and educational infrastructure underdeveloped, and the cooperation between the productive sector, national and local governments and the scientific community very low.

Moreover, it remains to be seen whether the leading employers associations will change their course if the economic recovery comes to a halt or whether pragmatism will prevail and neo-corporate conflicts of interest will develop between companies, unions and the government. It's also an open question as to whether the demands of the economically and socially excluded will be radicalized or channeled into concrete policy options by the political parties, especially the hegemonic PJ, and whether the existing gap between a rich minority and an impoverished majority can be reduced. Certainly, impoverishment of the middle class and a massive brain drain has depleted the country's reservoir of reform energy and potential agents of change. On the other hand, and in contrast to the chronic pessimism of Argentina's citizens, it is an encouraging sign that 50% of Argentines are now convinced that the economic situation of the country will improve in the future, and that 48% think that their personal situation will improve (Latinobarómetro 2006). Latinobarómetro 2004 addresses one of Argentina's central problems with a direct question: "How can democracy be consolidated in a country where a population with high democratic values does not know how to better guarantee the functioning of democratic institutions and at the same time does not know how to get a political elite who guarantees exactly that?" The answer to that question is still unclear.