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Argentina Faces Troubling Economic, Diplomatic Panorama

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Three weeks from completing the first of his four years in office, Argentine President Mauricio Macri has yet to deliver any of the economic and social advances he promised during the election campaign that landed him in the Casa Rosada in Buenos Aires on Dec. 10, 2015.

The loss of tens of thousands of jobs due to a crisis affecting commerce and industry has resulted in a noticeable increase in the country’s poverty and destitution numbers. Soaring inflation and a sharp drop in consumption have forced many small- and medium-sized businesses to close. Larger enterprises, particularly in the automotive and construction sectors, are suspending or laying off personnel. Exports are also down significantly, as are sales in supermarkets, shopping centers, and retail shops. The result is mounting frustration among regular citizens and workers, with an increase in labor disputes at a level not seen since the economic crisis of the last decade (NotiSur, March 25, 2016).

On the diplomatic front, the government continues to show a pronounced bias in its international policy, complicating relations, as a result, with China and Russia, two of the top buyers of Argentine grains and food exports. An attempt to improve relations with the United Kingdom, in the meantime, seems to have backfired, with London deciding unilaterally to carry out military exercises on the Islas Malvinas/Falkland Islands, a disputed territory over which the two countries fought a bloody war in 1982. And to top things off, the Macri administration also finds itself at odds with the UN, whose Working Group on Arbitrary Detention demanded late last month that an indigenous social activist detained without charges since January be freed (NotiSur, May 20, 2016).

Ballooning debt

Macri still believes that the steps taken during his first three weeks in power to revert the redistributive and economic-stimulus policies of the previous dozen years will eventually prove successful (NotiSur, Jan. 29, 2016). One of those measures was to lift foreign exchange controls. The result has been a roughly 40% devaluation of the Argentine peso and rising inflation, which is expected to reach 42% this year.

The new government also cut taxes for the agribusiness and mining sectors; accepted onerous demands put forth by so-called “vulture funds” that had been involved in a drawn-out dispute with Argentina over debt bonds (NotiSur, Oct. 3, 2014); allowed rate hikes on public services (electricity, water, sanitation, and natural gas) of up to 400%; and overturned social legislation introduced during the administrations of Néstor Kirchner (2003-2007) and Cristina Fernández de Kirchner (2007-2015).

In April, the conservative research institute Observatorio de la Deuda Social (Social Debt Observatory) of the Universidad Católica Argentina (Catholic University of Argentina, UCA)—the alma mater of Macri, his vice president, and various ministry heads—suggested that more people fell into poverty during the first three months of the new administration than during the last four years of the Fernández de Kirchner presidency. Four months later, the Observatorio reiterated
that claim in a report titled “Tiempo de balance: la deuda social pendiente” (Time to Reassess: The pending social debt). The study found that between 2011 and 2015, the poverty rate rose 4.3% to include 29% of the population, while between January and March of 2016, it rose 5.5% to include 34.5% of the population. In absolute terms, it means that of Argentina’s more than 15 million poor people, 1.4 million joined the poverty ranks in just the first three months of the year, the report found.

The country’s deepening economic problems have also caught the attention of the Fundación de Investigaciones para el Desarrollo Económico (Research for Economic Development Foundation, FIDE), a private consulting entity linked to the UN and the Inter-American Development Bank. In its most recent monthly report, published Nov. 7, the FIDE concluded that Argentina is experiencing a prolonged recession that is likely to stretch into 2017. It also found that salaries have fallen off with no relief whatsoever from a light slowdown of inflation, and that foreign investment—rather than rushing in, as the government promised—is decreasing. The report concluded, furthermore, that growing debt, far from strengthening the country’s future repayment possibilities, is leading to an accumulation of speculative capital gains and is financing capital flight.

Economists cited in a Nov. 1 article by BBC Mundo argue that Argentina is seeing unprecedented debt levels and suggested that in the first 11 months of the Macri administration, the public sector (national and provincial governments) and banks have taken on US$40 billion in loans, pushing the national debt to US$200 billion, or 30% of Gross Domestic Product (GDP). The numbers are setting off alarm bells among analysts who see parallels to Argentina’s trajectory before the 2001 crisis, when 37 people died amid a social uprising that was unlike anything the country had previously experienced under a democratic government.

‘Diplomatic missteps’

The Macri government also finds itself on shaky ground with regards to the disputed Malvinas/Falklands, which have been occupied by British troops since 1833. In recent years, the UN has sided with Argentina by calling on Great Britain to engage in negotiations over the “colonial situation,” as it was defined in a 1965 General Assembly resolution.

For the Argentine people, the sovereignty issue transcends party politics: It is a matter of state (NotiSur, July 17, 2015). The Macri administration, nevertheless, opted recently to break with tradition and chart a new course, presumably for the sake of tapping into the island’s economic potential (primarily fishing and oil). In mid-September, it signed a joint document with Britain promising to “remove the obstacles that limited the development of the islands.”

The move drew sharp rebukes from some Macri opponents, who accuse the administration of capitulating to Great Britain for the sake of potential business deals. During a legislative hearing involving the foreign affairs minister, Susana Malcorra, Sen. Juan Manuel Abal Medina criticized the agreement for describing as “obstacles” measures that had been “accomplished with effort and perseverance and that ought to be defended, because they’re not ‘obstacles to remove,’ but rather tools to use.”

Argentina’s “friendly disposition,” as Malcorra described it, was not reciprocated, and on Oct. 14, the country learned that in the coming days, Britain’s occupation troops planned to carry out military exercises that would include the firing of surface-to-air Rapier missiles. The news didn’t even reach the Foreign Affairs Ministry through diplomatic channels, but rather from a nautical
security warning received by the Hydrographic Service, a low-level technical branch of the Defense Ministry.

Relations with China and Russia are also strained. On Oct. 6, after nine months of silence, a report written by the agro-industrial advisor with the Argentine Embassy in Beijing revealed that China has closed its doors to Argentine soy, the principal product exchanged between the two countries. The daily La Nación reported that between January and September, China reduced its purchases to just 3% of what it had been in 2015.

So far there are no official explanations, but a number of anonymous government sources describe it as retaliation by China for two possible reasons. The first is that the Macri administration may, without warning, have stopped issuing import licenses for Chinese goods. The second is that Argentina, despite what it had agreed to in principle, might not support the Asian giant’s bid to be recognized by the World Trade Organization as a market economy. One theory is that Macri is siding with Germany, which doesn’t believe that China meets European criteria to qualify as a market-controlled rather than state-controlled economy.

Russia—a major financier, along with China, of infrastructure projects (hydroelectric dams and the modernization of railway branches)—has also taken steps that compromise Argentine plans. The Russian bank Vnesheconombank decided to reduce the amount of loan money it promised and to demand different conditions. Political analysts cited by local media outlets say this wasn’t a “capricious decision” but rather payback for “diplomatic missteps” such as the failed attempt, by the Macri government, to black out the television network RT (originally Russia Today), available free in Argentina since 2014.

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