



The rhythms of Argentina

Fifteen years since his first Latin Letter assessed Argentina's prospects, Derek Sambrook looks at how the country has changed. He finds real success amid a continuing story of turbulence

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The tango belongs to Argentina and the alienation, hardship and despondency felt by many of the immigrants in the nineteenth and twentieth centuries were expressed in its rhythms and step patterns.

Once, Argentina could rightly claim to be one of the richest countries in the world and so the gargantuan challenge facing president Mauricio Macri, who has eschewed Peronism, is to reverse a century of decline, avowing that: "We are no longer going to be the country of potential, but the country of realities".

Argentina's potential became clear



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after independence from Spain in 1816 enticing over two centuries a flood of immigrants from Europe.

Ironically, this influx of immigrants unwittingly sowed the seeds of discontent that would haunt the republic up to this day. The fertile land, which turned the country into a major source of meat and grain for Europeans, was controlled by a rich, rural elite once described as the lords of the pampas whose political power was beyond the reach of those immigrants who found themselves absorbed into the coastal towns, becoming part of a separate

class of citizens which split the society in two.

Not until the electoral reform of 1912 did urban consumers enjoy universal male suffrage and begin to have their voices heard.

But unlike Chile or Panama after the removal of dictatorships (see "Comforting Thoughts" in last month's issue) the country has endured a wave of sudden, calamitous and traumatic political instability even though the last military dictatorship, under General Leopoldo Fortunato Galtieri, ended in 1982 after he invaded Islas Malvinas (known in the United Kingdom as the Falkland Islands), a British Overseas Territory.

Unfortunately for the general, it was Britain's then-prime minister, Margaret Thatcher, who triumphed militarily and politically. General Galtieri was cast aside, suffering the ignominy of defeat.

After the disgraced general left office, a quiet lawyer, Raúl Alfonsín, became president, but his government was weak and plagued by strikes and military rebellions; there were food riots in the streets and inflation was running at a compound annual rate of 28,000%.

1989 saw a Peronist government in power with Carlos Saúl Menem as president and who became so popular that he was able to change the constitution to allow re-election of a president for one consecutive term (even though the term was changed from six to four years). In 1994 he was returned to office with almost 50% of the vote.

BOOM TO BUST (AGAIN)

The unsung hero, however, was Domingo Cavallo, an outstanding economist, who as minister of finance brought discipline to the economy.

In his second term the president presided over a boom for the middle classes whereas the policy of privatisation of the huge state-sector brought widespread unemployment, and rumours began to circulate over alleged corruption connected with the selling of state assets to an elite group of insiders.

Then, during the international crisis of 1997-98, the president refused to devalue the peso which, by law, and

as part of Domingo Carvallo's reforms, had enjoyed parity with the US dollar. The president feared a loss of confidence in the economy but the cost of his supporting the peso increased an already huge public debt.

The presidential elections in 1999 ousted the Peronists and brought Fernando de la Rúa to power in a coalition government.

Attempts to balance the budget with the prospect of spending cuts led to a general strike at a time when beef exports had slumped due to foot-and-mouth disease, commodity prices were weakening and a strengthening dollar had put even more pressure on the overvalued peso.

The coalition government fell apart and the president formed a government of national unity in March 2001. He secured a loan package of almost \$40bn from the International Monetary Fund.

THE ROAD TO DEFAULT

Desperately adrift, he appointed Domingo Cavallo as his finance minister who attempted to practice his economic alchemy, the financial equivalent of turning lead into gold, once more. But in trying to loosen the link with the US dollar he created a domino effect as investor confidence wobbled and then eventually turned into a stampede for the door.

Around US\$25bn left Argentina and two further visits to the IMF only secured \$8bn. The death knell tolled, however, when the finance minister froze all US dollar accounts in a desperate bid to save the banking system. In December 2001, the economy fell apart in Argentina's worst economic collapse in living memory.

A state of emergency was declared and militant groups formed. *"¡Qué se vayan todos!"* ("Out with the lot of them") was scrawled on walls and shouted in the streets. President de la Rúa resigned just before Christmas and no fewer than three interim presidents subsequently resigned in succession over a period of only two weeks.

Then Argentina did the unthinkable and defaulted on a foreign debt of \$80bn; it was the biggest default in history.

Congress then elected Peronist Eduardo Duhalde who, like a skilled tango dancer, improvised.

He devalued the peso and took measures to stabilize the economy, but what really turned the economy around was the renewal of strong international demand for Argentine agricultural exports (the original reason for Argentina's outstanding economic success after its independence) and which were made even more attractive by a devalued peso.

ARGENTINA HAS BORROWED MORE THAN ALMOST ANY OTHER EMERGING MARKET NATION SINCE PRESIDENT MACRI CAME TO OFFICE

ANOTHER DYNASTY?

This brings us to the cult of the Kirchners which President Macri now has to contend with. As Luis Tonelli, a political scientist, has remarked about the country's previous president, Cristina Fernández de Kirchner, "She helps to remind everyone that the past is just around the corner." It was her husband, Néstor Carlos Kirchner, also a Peronist like his wife, who preceded her as president from 1991 to 2003 who inherited an economic disaster and huge social problems.

Unemployment had reached 20% and 60% of the population lived below the poverty line, many of them being the impoverished descendants of those original immigrants from Europe.

Néstor Kirchner had won the election by a small margin and he adopted a populist stance, blaming most of his woes on the IMF; to his credit he brought down the external debt from \$80bn to \$35bn by early 2005. He did make efforts to restore faith in public life, but which was tested when he stepped down in 2007 and his wife became president.

This stirred thoughts of a ruling dynasty in the making within the neo-Peronist elite. She served two terms as president during which, like her husband, she espoused populism and tried to bolster mass support from Argen-

tines by fair means or foul, befriending since-deceased radical leaders like Hugo Chávez and Fidel Castro.

Her tactics included raising the question of the future sovereignty of those islands nicknamed Galtieri's Folly. Support for her remains, however, despite her principal legacy being economic stagnation.

President Macri's nemesis may not be down and out, but after her resounding defeat in the October midterm elections her influence has been greatly diminished; she is also mired in scandal, facing corruption charges, including bribery and embezzlement allegations.

After two years in office Mauricio Macri's presidency has scored some real successes and his agenda includes shrinking the size of the state, tackling trade barriers and returning Argentina to a stable, normal G20 country.

The results of the midterm elections are encouraging; the president's coalition gained one of the biggest victories for any political movement in midterm elections since the return of democracy in 1983. He hopes to submit to congress reforms covering fiscal, tax, labour and capital market laws before the end of this year.

But the country has a high fiscal deficit which has forced the government to rely on international credit at a time when the current account deficit is accelerating.

Argentina has borrowed more than almost any other emerging market nation since President Macri came to office; global investors searching for yield, with low global interest rates, have bought more than \$54bn in Argentine bonds since 2016 when the country returned to the international capital markets.

"Caution is the key, because not only is Argentina a place where anything grows, it is also a country where, at least for the moment, anything goes". That was the closing sentence of my first Latin Letter which was published exactly 15 years ago.

Caution, if nothing else, still remains the key, and doubtless as in the past, more social commentary will continue to be transposed into the music of the tango. ■