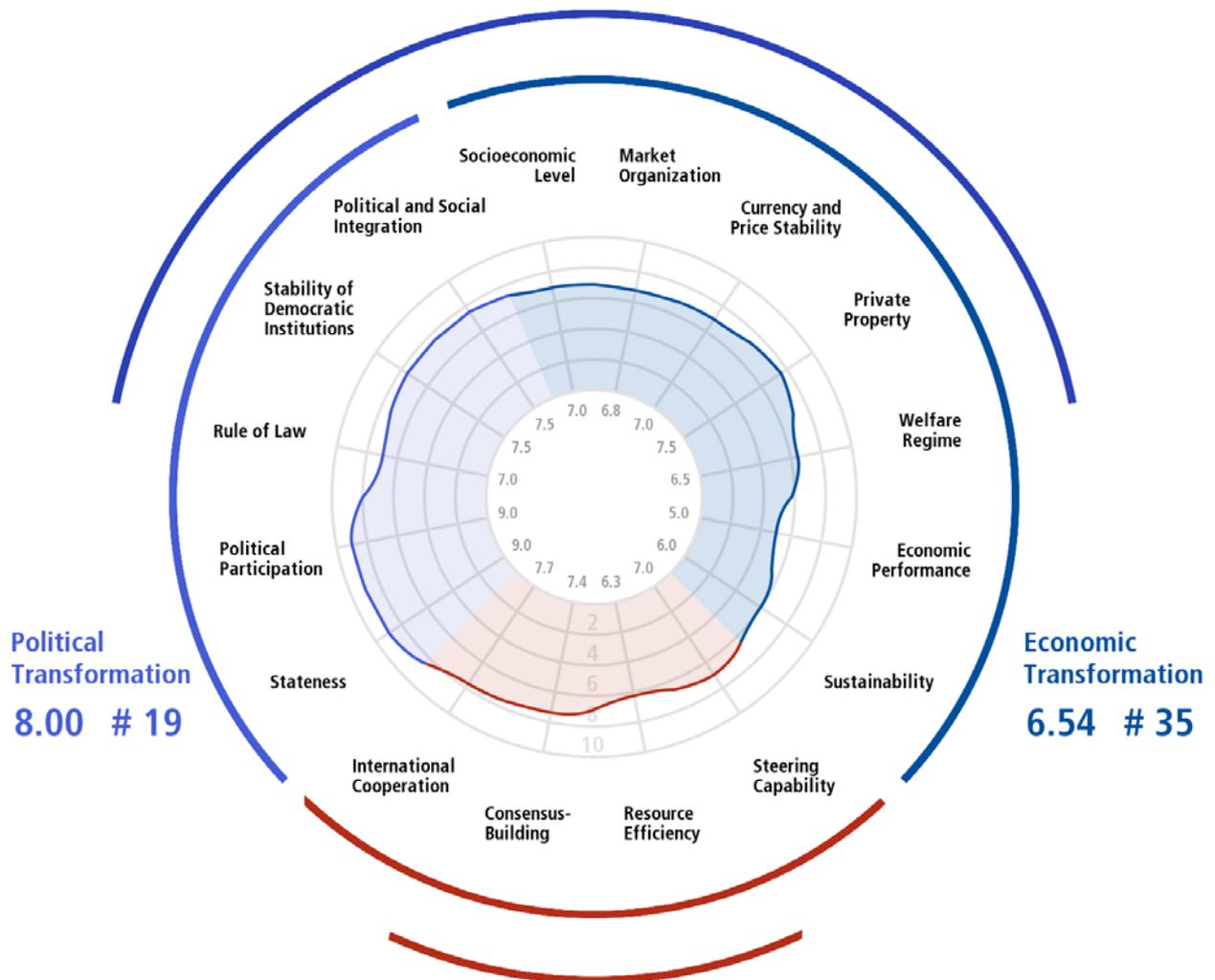


Argentina

Status Index

7.27 # 23

on 1-10 scale out of 129



Political Transformation
8.00 # 19

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6.54 # 35

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6.00 # 26

on 1-10 scale out of 129

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2018. It covers the period from February 1, 2015 to January 31, 2017. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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Key Indicators

Population	M	43.8	HDI	0.827	GDP p.c., PPP \$	19934
Pop. growth ¹	% p.a.	1.0	HDI rank of 188	45	Gini Index	42.7
Life expectancy	years	76.3	UN Education Index	0.849	Poverty ³	% 4.5
Urban population	%	91.9	Gender inequality ²	-	Aid per capita \$	-0.5

Sources (as of October 2017): The World Bank, World Development Indicators 2017 | UNDP, Human Development Report 2016. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

Executive Summary

The 2015 presidential elections resulted in a surprising political change, ending the Peronist hegemony that has held power in Argentina since 2003. In the runoff election in late November 2015, Mauricio Macri defeated President Fernández's hand-picked successor, Daniel Scioli, by a very slim 51.4% to 48.6% margin, ending a dozen years of controversial Kirchner-led governments and sending shock waves through the Peronist political establishment. In the legislative elections, Fernández's FPV lost its absolute majority of seats in the lower house, but could keep it in the Senate. The Peronists also lost the governorship of Buenos Aires province, for the first time since 1983, to María Eugenia Vidal of Macri's Cambiemos Coalition.

Macri began his term with a mix of economic shock therapy and gradualism, reversing some of Fernández's populist policies, eliminating or reducing export taxes on various agricultural products, liberalizing imports and lifting restrictions on foreign currency purchases. But these measures, although necessary, have proved painful. The peso devaluation (about 35%) further increased the already-high inflation rate and strongly affected the purchasing power of households. Similarly, the reduction or abolition of a wide range of subsidies (e.g., energy and transport subsidies) led to substantial price increases. These measures provoked social discontent and protest. With unemployment at 9.3% and the economy in recession, trade unions supported by social movements organized protests that brought tens of thousands of demonstrators into the streets of Buenos Aires on September 21, 2016. Macri's approval rating decreased from 71% at the beginning of his government to 43% in December 2016.

To counterbalance the foreseeable social costs and promote economic growth, by mid-2016, the government enacted public infrastructure projects, transfers to provinces to fund public works, increased pension benefits, increased unemployment subsidies and reduced taxes for SMEs affected by the government's import liberalization policy. The government also introduced a tax

amnesty program, which increased government revenue by an additional \$9.7 billion by March 2017.

On the political front, Macri adopted a remarkably successful political style based on pragmatism, and dialog with potential allies and veto groups. He also issued a series of (democratically problematic) decrees; the two most important decrees involved the appointment of two justices to the Supreme Court and amending the Fernández government's 2009 media law. Finally, Macri signed a historic agreement with holdout bondholders (i.e., the government's remaining creditors following the 2001 to 2002 default), which enabled the country to regain access to international capital markets.

At the end of Macri's first year, the new government's policy performance balance is mixed. The reversal of the serious economic imbalances and distortions inherited from the previous administration were necessary to lay the foundation for future economic growth, but had an adverse short-term impact on the economy and welfare. However, the alternative of continuing with the unsustainable policy framework of the Fernández administration was no longer tenable and would eventually have led to a new round in the country's historical cycle of economic crises, enduring erosion of the democratic institutions and social distress.

History and Characteristics of Transformation

Chronic instability has been a key feature of 20th century Argentine history. Frequent changes in the system of government, irregular regime changes and crises within the dominant power cartels have impeded both development and the implementation of coherent policies. This political development culminated in a fierce military dictatorship between 1976 and 1983. When President Raúl Ricardo Alfonsín of the Radical Civic Union (Unión Cívica Radical, UCR) started his six-year term in 1983, Argentina finally seemed poised to enter a phase of political stability; however, economic and political crisis emerged in the first half of 1989 that was marked by hyperinflation and political stalemate. This crisis forced Alfonsín to cede his office to the newly elected president, Carlos Menem from the Peronist Partido Justicialista (PJ), six months before the end of his regular term. Menem established parity between the peso and U.S. dollar, pursued a neoliberal stabilization policy, succeeded in restoring growth to the Argentine economy and winning the favor of the nation's bourgeoisie, as well as of international creditors and investors.

Due to these successes, Menem won re-election in 1995. However, as a consequence of a series international financial crises and the real depreciation in Brazil, the Argentine economy slipped into a recession in 1999. As a result of these developments, a Peronist government was voted out of office for the first time in Argentina's history in the 1999 elections. But the new center-left alliance under the leadership of the Radical Party's Fernando de la Rúa, confronted with a Peronist majority in the Senate and among provincial governors failed to present a clear policy agenda to

put the economy back, find solutions to the nation's grave social problems and was forced in December 2001 to resign. A wave of protests and violence brought the nation to the brink of chaos.

On January 1, 2002, Congress elected Peronist Senator Eduardo Duhalde as Argentina's third president in less than two weeks. Confronted with a massive civil rebellion, the new government's first move was to end the monetary convertibility system. Within a few weeks, the economy fell into a full-scale recession, the banking system collapsed and economic activity ground to a halt. At the same time, democratic institutions were near the breaking point, and hostility toward the political elite and social protests grew to such proportions that there was talk of military intervention. Finally, presidential balloting was rescheduled for April 27, 2003. The winner in the second round was Peronist Néstor Kirchner, an ex-governor of Santa Cruz province. Néstor Kirchner strengthened his political position in the mid-term elections in 2005 and capitalized on several successes, including a strong economic recovery, a successful debt arrangement with foreign investors and his efforts to address the human rights violations perpetrated under the former military dictatorship. In 2007, his wife Cristina Fernández de Kirchner won the presidential elections due to the economic recovery and the lack of a united opposition. Cristina Fernández de Kirchner was the first elected female president in Argentina.

Fernández's strong political alliance and majority in Congress fractured when she clashed with the agrarian sector in 2008 over her administration's failed attempt to increase export taxes on certain farm products. A mid-term election held in June 2009 brought significant losses to the government coalition. The sudden death of Néstor Kirchner in October 2010, while depriving "kirchnerismo" of its uncontested leader, abruptly changed the political scenery, paving the way for Fernández's second term following the 2011 elections. But the rapid economic growth of previous years began to slow sharply as government policies held back exports and the world economy fell into recession. Reversals in economic and foreign policy agendas took place, which contributed to worsening the economic and political situation of the country, and its external perception. At the end of Fernández's second turn, Argentine economic performance was extremely poor by most standards and the institutional framework weakened. The new government, which took office in December 2015, inherited an inconsistent and distorted economic model, and a largely isolated country.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

Transformation Status

I. Political Transformation

1 | Stateness

The state's monopoly on the use of force in principle prevails throughout the country and is not seriously disputed by functional organizations such as guerrillas or paramilitaries. However, organized crime related to drug-trafficking has grown significantly over the last decade, as Argentina not only became the second-largest cocaine market in Latin America behind Brazil, but also a transit point for drugs to west Africa and Europe. A 2015 report on the drug trade by an Argentine NGO revealed that Argentina's capital city, Buenos Aires, was home to at least 10 cocaine laboratories run by Peruvian criminal networks. Most affected by drug trade are the northern and central regions of the country. The murder rate in Rosario, a center of the drug trade, was five times the national average in 2014. Money-laundering activities related to drug money have become a growing concern and the emergence of private security services today threaten to erode or even overwhelm the state's monopoly on the use of force in urban centers. In the poorer provinces, shortages in funding and personnel have limited the state's ability to act effectively, or even undermined it by opening security personnel to the temptations of corruption. According to Latinobarómetro 2015, 71% of Argentine respondents stated that they live in an increasingly insecure country.

The large majority of the population accepts the nation-state as legitimate. All individuals and group members have the right to acquire citizenship without discrimination. No relevant group in society challenges the definition of citizenship or the validity of the state's constitution. A potential source of friction remains the civil rights of indigenous people, including the Mapuche in the south and the Tobas and Kolas in the north, who together represent between 3% and 5% of the total population. They are largely neglected by the government and suffer disproportionately from illness and extreme poverty. 70% of the country's rural indigenous communities lack title to their lands. Though land was returned to several communities under Néstor Kirchner, most land disputes remain today unresolved. Only 11 of Argentina's 23 provinces have constitutions recognizing the rights of

Question
Score

Monopoly on the
use of force

8

'06 '18 10

8

1

State identity

10

'06 '18 10

10

1

indigenous people. Public awareness of the neglected rights of indigenous people is very limited. Only 3% of citizens are convinced that indigenous people suffer most from discrimination within the country.

The constitution guarantees freedom of religion. According to Latinobarómetro 2015, 60% of citizens are convinced that the state guarantees all confessions (2011: 44%). Church and state are separated, and the political process is secularized. However, the Catholic Church is subsidized by the state and has authority in important issues. The political influence of the church has diminished further under Kirchner and Fernández. Néstor Kirchner and the Catholic Church clashed on issues including abortion, sexual education, human rights violations and poverty. Cristina Fernández's relationship with the Catholic Church has been strained due to her outspoken support for same-sex marriage and the perceived leftism of her government's agenda. General expectations that the appointment of Cardinal Bergoglio as pope would influence domestic policy were disappointed. The Argentine Episcopal Conference continues to be very critical in its documents concerning government politics. Bergoglio's relation with Macri remains aloof.

The state's fundamental infrastructure extends to the entire territory of the country, but operates somewhat deficiently. State administrative and political parties administer public funds, but the distribution followed particularistic, clientelistic and nontransparent criteria during the Kirchner governments. There were no federal policies promoting development in depressed regions, and there were very few employment opportunities outside the public sector. One of President Macri's first measures was "Plan Belgrano," an ambitious holistic development project to transform the north. The plan is that the project will be rolled out in 10 poorer provinces in the north of the country. It will have a budget of \$16 billion over 10 years to boost social development, economic production and physical infrastructure. The project aims to integrate the northern provinces productively into the center of Argentina, the country's ports and neighboring countries. The main objective of Plan Belgrano is to resolve regional asymmetries, modernizing infrastructure and improving logistics.

2 | Political Participation

General elections are mostly free and fair, and are accepted in principle as the legitimate means of filling leadership positions. Universal suffrage and the right to campaign for office exist. The electoral juridical body (Cámara Nacional Electoral) is integral part of the judiciary. It is not a separate body as in other Latin American countries, but is nominally independent in its decisions. In a recent survey, 46% of Argentine respondents stated that the Electoral Council does a good or very good job, while 72% believe that participation in elections improves things. Turnout for the 2015 national elections was 82%.

No interference of religious dogmas

10



1

Basic administration

8



1

Free and fair elections

9



1

The 2015 elections can be considered as free and fair. Media access was free and fair for all candidates and parties. Though a recent exception involved the Tucumán gubernatorial election in August 2015 in which some ballot boxes were burned and there were accusations of vote-buying. Peaceful demonstrations against the Kirchnerist candidate, Juan Manzur, who had been declared winner, were violently ended by the police. In September 2015, the provincial Supreme Court ruled the election valid, a decision confirmed in 2017 by the national Supreme Court.

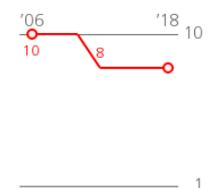
Democratically elected political representatives generally have the power to govern, but in Argentina's under-institutionalized political system, individual power groups can create their own separate domains or enact special-interest policies, albeit with changing fortunes due to political cycles. There are four corporate actors that have historically held a veto power: trade unions, big business, the financial sector and the military. Once the most powerful veto power, since the early 1990s, the military no longer has a veto power in political affairs. The military's role has been reduced substantially since the beginning of the Menem administration and again during the two Kirchner governments.

During Fernández's second term, the strongest labor organization, Confederación General de Trabajo (CGT), strengthened its veto power. Relations between the Kirchner government and Argentina's entrepreneurs have improved with the recovery of the economy (2003-2012), but continued to oscillate between mutual accommodation and a careful distance. With Macri's implementation of a more open and liberal development model, relations with business improved. However, relations with the trade unions were more complicated due to the high inflation rate and job losses. Macri's aim to prevent an alliance between the three competing trade union organizations succeeded only for a few months. The cohesion and power of the trade unions increased in the second half of 2016. Perceiving the growing resistance to his economic policies, Macri has attempted to mend fences with the trade unions. He has been urged to make some concessions (e.g. wage increases) and abandon parts of his ambitious reform program. The financial sector (a third potential veto-group) pressed the government to devalue the currency in 2014 and, together with the agrarian sector, was the real winner of Macri's neoliberal reforms. An August 2016 arrangement opened access to the international capital market.

Effective power to govern was also somewhat limited by the enduring tensions between the government and the Intelligence Services in the context of the suspicious death of prosecutor Alberto Nisman in January 2015. Nisman had accused President Fernández of a clandestine deal with Iran to cover up Iranian complicity in the 1994 bombing of the Jewish AMIA center in Buenos Aires.

Effective power to govern

8



Citizens are free to establish political and civic organizations and assemble freely. These rights are generally respected. Civil society organizations are robust and play a significant role in society, although some periodically fall victim to Argentina's endemic corruption. Trade union influence, strongly undermined during the Menem era by neoliberal reforms, corruption scandals and internal divisions, gained negotiating power with the economic recovery and the more flexible governing style under Cristina Fernández. Beyond the established forms of interest group articulation, there has been an emergence of basic organizations, self-help groups and other forms of self-articulation and protest. NGOs monitor and influence government policy on a variety of issues. They are generally free from legal restrictions and political pressure from the state. An exception was the reaction of the province government to civil protests against alleged voter fraud in Tucumán Province's gubernatorial election in August 2015. The police violently dispersed thousands of protesting people.

Association /
assembly rights

10



1

Freedom of information and the freedom of speech are guaranteed by law, but occasionally subject to interference or government restrictions. A bill to regulate the broadcast media, approved by Congress in October 2009, aimed to promote a diversity of views by limiting the ability of corporations to own large portions of the radio frequency spectrum. The bill was upheld by Argentina's Supreme Court in 2013. The state does not hinder free access to the internet, which is widely used in Argentina. The country is the third largest mobile market in Latin America and a unique subscriber basis covers 90% of the population, higher than Europe (85%), the United States (80%) and the regional average (68%).

Freedom of
expression

9



1

One of the first measures of the Macri government was a decree that effectively overturned the 2009 media law designed to discourage monopolies and strengthen the government's media. Federal judges have put a block on this decree and the decision seems set to provoke another long legal battle. On January 12, 2016, around 20 000 Argentines took to the streets of Buenos Aires to protest the media law reform in what proved to be one of the biggest demonstrations against the new government.

In September 2016, Congress passed an access to information law after a legislative debate that had lasted about 12 years.

3 | Rule of Law

Since the 1990s, the balance of power between the three branches of government clearly shifted in favor of the executive, resulting in a "presidential hegemony" continuing until the presidencies of Néstor Kirchner and his wife Cristina Fernández (2003-2015). The use of executive decree powers has marginalized the role of the Congress in formulating, scrutinizing and passing legislation, while undermining trust between the executive and the legislature. The hope that this practice would end following the formation of Macri's coalition government was disappointed within a few days of Macri's victory. Mindful of his lack of a majority in Congress and eager

Separation of
powers

7

to catch the opposition off guard with parliament in recess until March 2016, Macri implemented many of his first reforms by decree. The most controversial of these decrees related to judicial appointments and the reversal of one of the previous government's landmark pieces of legislation, the 2009 Media Law. While the two new magistrates appointed to the court were widely respected and have cross-party appeal, the manner of their appointment irritated even some of Macri's own supporters. Federal judges blocked Macri's media law decree and the decision seems to have provoked another long legal battle. Since Macri's defeat in the two mentioned cases, he has behaved more cautiously, concentrated on building bridges with some parts of the opposition, maintained the disunion of the three Peronist factions in Congress and shown more respect for the balance of power. There are also signs that the judiciary has gained more autonomy.

Argentina's judiciary is generally independent, but remains subject to influence from political authorities. Though the extent of political influence varies depending on the government in power. The populist Peronist governments usually exerted stronger influence, while non-Peronists have tended to be more respectful of the judicial independence and the rule of law in general.

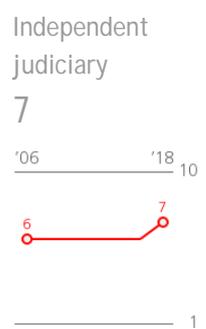
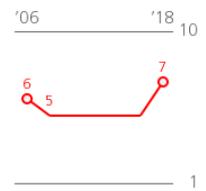
Since assuming office, the Macri government was more respectful of judicial independence than the previous Kirchner governments. Though in the case of Supreme Court judges (mentioned in the section on separation of powers), Macri had to be kept on track by civil society, the media and even his allies.

Notwithstanding, the judiciary is still plagued by corruption, delays and inefficiency, and burdened by scores of tenured but incompetent judges. These problems are more severe at the provincial level where governors prefer to have friendly courts in place during their administration. Argentine law allows for fair trials, a right that is generally enforced by the judiciary.

Police misconduct is endemic, including torture and brutality against suspects in custody. In May 2016, under the justice reform package "Justice 2020," the Macri administration said it would create a national mechanism to prevent torture and fulfill its obligations under the U.N. Optional Protocol to the Convention against Torture and other Cruel, Inhuman or Degrading Treatment or Punishment.

The World Justice Project (WJP) Rule of Law Index 2016 ranked Argentina's judicial system 51 out of 113 countries, with an overall score of 0.55, and 14 out of 30 countries in Latin America, an improvement on previous years.

In the 2015 Latinobarómetro survey, only 1% of the Argentine respondents stated that the judiciary performs well, while 53% stated that the judiciary performs poorly and 45% stated that the judiciary has severe flaws.



Macri declared the fight against corruption to be a priority and has undertaken the first steps in this area, including giving greater autonomy to the Anti-Corruption Office (Oficina Anti-Corrupción, OA). Prosecution of abuses of public office has become more intense and has strong public backing following the endemic corruption of the Kircher years, the “Lava Jato” scandal in Brazil, Wikileaks revelations and even alleged cases affecting the Macri government. The OA is active in these causes and even the Comptroller General of the Nation is called to take part in investigations that affect the credibility of the executive (e.g., the debt agreement concerning the postal company, which had been owned by the Macri group between 1997 and 2003).

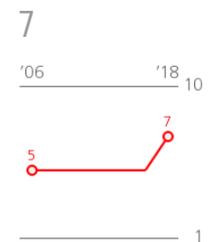
The most spectacular ongoing cases of alleged corruption include those of former President Fernández, former Vice-President Amado Boudou and José Lopez, deputy minister for public works under the two Kirchners. López was arrested after trying to conceal \$8.9 million in a convent. The scandal prompted Macri to denounce “incredible” levels of corruption during the 12 years of Kirchner governments. Notwithstanding these advances, Macri himself incurred suspicion because he was the only Latin American president to appear in the “Panama Papers” on April 2016, but on closer inspection the revelations did not appear too damaging for him.

Overall, compared to previous years, the situation has improved following the change in government. Subsequently, the prosecution of abuses of public office now follow the rule of the law and less the considerations of political opportunity. However, while this change served as an incentive to re-activate “sleeping” cases that had previously been dropped, this development also casts doubts on the judiciary’s assertiveness over longer periods of time or under changing political circumstances.

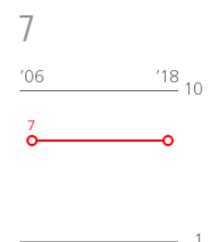
Civil rights and liberties are constitutionally guaranteed, and comprise equality before the law, equal access to justice and due process under rule of law. However, since both the police and the judiciary are politicized, corrupt, poorly paid and inefficient, legal action taken to remedy violations of these civil rights and liberties is usually inadequate. The excessive use of force by police and other security forces has been reported as a 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. The Argentine military and the police are hesitant to government enforcement of human rights, and national and provincial governments have been unable to change the prevailing culture in the security forces, with repeated failures to reform police forces known to be corrupt and complicit in criminal activity

Another issue of primary concern for Argentines is public security, especially in Buenos Aires. Much of the increase in the level of violent crime as well as the perception that crime is a problem increased markedly has been fueled by a growth in illegal drug use, and by the complicity of high-ranking judicial and law enforcement authorities in the drug trade. There are national and local ombudsmen tasked with aiding citizens and whose rights are violated by the state, but their role is

Prosecution of
office abuse



Civil rights



de facto very limited for low-income and other socially marginalized people. There is a growing anti-Semitism and xenophobia against immigrants from the Andean countries and Asia.

Although the participation of women in politics, guaranteed by the “cupo femenino,” is the highest in Latin America, salaries and conditions of work continue to be lower for women than for men in the private sector, and the number of women on the executive level remains insufficient. In 2015 and 2016, violence against women increased dramatically. In 2015, 235 women were killed in gender-based violence incidents in Argentina. As a reaction, in August 2016, President Macri announced a National Plan for the Eradication of Violence against Women with the aim of putting into force a 2009 law.

Forced labor in some industrial sectors, the agriculture sector, and among street vendors and domestic workers remains a problem. Men, women and children are subject of sex trafficking, funding for programs to assist victims is insufficient. Discrimination against indigenous people remains a concern. Reports of torture and other ill-treatment were not investigated.

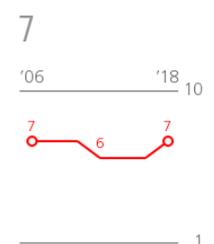
4 | Stability of Democratic Institutions

Democratic institutions at federal, provincial and local level, including the administrative system and the judiciary, have recovered step by step from the 2001 to 2002 crisis. However, their effective functioning is still not sufficiently guaranteed, and their interrelationships are not entirely smooth. The presidencies of both Kirchners were characterized by a significant concentration of executive power at the expense of other democratic institutions and the division of powers.

The system of formal and informal incentives contained within the country’s political system ensures that obstruction of the government is more profitable for the opposition than cooperation. The “localization” and decentralization of politics emerged without the parallel development of a solid party system on the national level, and without institutional mechanisms that typically constitute a countervailing power to these centrifugal tendencies.

The unity of the Peronist party during the Kirchner governments disappeared following the surprising defeat of the Peronist candidate Daniel Scioli in the 2015 presidential election. But this change has only moderated the super-presidentialism and not motivated the new center-right president, Macri, to definitively renounce the use of presidential decrees. On the other hand, Macri practices a much more cooperative style of governance than his Peronist predecessors. He seems to respect the division of powers more, attempts to find alliance partners through dialog and with some success has undermined the coherence of the Peronist opposition. This new policy style and strategic behavior enabled Macri to not only achieve some ad

Performance of democratic institutions



hoc arrangements with the support of moderate Peronists under the leadership of Sergio Massa, but also to establish a solid base of cooperation with governors, a powerful veto group in Argentina. This base of cooperation may erode in the election year 2017.

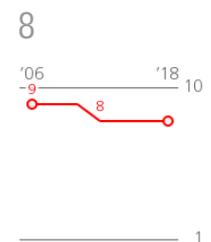
The relevant actors accept democratic institutions as legitimate, but do not always actively support them. Notwithstanding the concentration of power, the core institutions of Argentine democracy remain undisputed. Elections are clean (with a few exceptions), civil liberties are broadly protected and veto powers are comparatively weak. The military, responsible for six coups between 1930 and 1976, has withdrawn from politics. The constitutional order has not been interrupted since Argentina's return to democracy. The surprising government change in the 2015 elections, from the leftist Peronist government to the center-right coalition Cambiemos led by Macri, proceeded peacefully and within the democratic rules of game. It is too early, however, to judge if this reflects a change of the political elite's "culture" toward unconditionally abiding by the rules of the game.

5 | Political and Social Integration

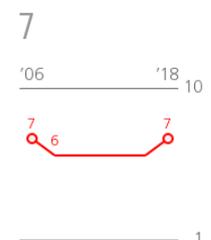
The party system is fairly stable, socially rooted, moderately fragmented and polarized. Volatility is also moderate. The traditional structure of Argentina's party system, characterized by competition between Peronism (PJ) and Radicalism (UCR), were maintained during the Kirchner and Fernández presidencies, although the walls between the two camps have become increasingly porous. The electorate increasingly votes for output-oriented agendas and largely does not follow ideological cleavages. Each party contains its respective left and right wings, which often led to ferocious intra-party conflicts. Given that Cambiemos, as a pragmatic pro-market coalition, is less ideologically defined, this situation is about to change. The electoral system favors the periphery at the expense of the urban centers, and Peronism and Radicalism at the expense of third parties. Néstor Kirchner was the last Peronist able to unite the subdivisions of the party, and his loss left a fragmented Peronist movement. The UCR has been fighting for survival since the disaster of President de la Rúa in 2001, and remains in disarray.

Since 2013, we observe a re-alignment in the party system which culminated in the October 2015 elections. These elections represented a watershed moment in the country's political history and changed the landscape of Argentine political life. With Cambiemos, a coalition composed of Civic Coalition (CC), Republican Proposal (PRO) led by Macri and the Radical Civic Union (UCR), there is now a strong center-right coalition party in Argentina. The leadership of Cambiemos is decidedly "porteño" (of Buenos Aires) in origin, pro-market in ideological orientation and led by members of the country's economic elite. Moreover, the coalition had the ability to win votes among the poor. Consequently, the coalition won not only the presidency

Commitment to democratic institutions



Party system



in November 2015, but also the governorship of Buenos Aires province by four percentage points (39% to 35%). Notably, this province contains 38% of all Argentine voters. In addition, the voters rejected Peronist mayoral incumbents in half of the cities in the Buenos Aires province. For the first time in Argentine history, the same party can control the city of Buenos Aires, the province of Buenos Aires (where a non-Peronist governor has not been elected since 1983) and the presidency. The strategy of Cambiemos is to build a base of volunteers that the party has recruited from NGOs, the business community and private universities.

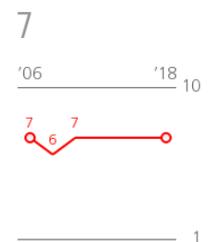
The existent network of associations reflects most social interests and is to some extent able to mediate between society and the political system. However, it is relatively fragmented and dominated by a few strong interest groups, above all business organizations and trade unions, producing a latent risk of pooling conflicts. Organized labor continues to be dominated by Peronist trade unions. The CGT as the most prominent actor has been recurrently plagued by internal struggles. Since 2012, CGT's thorny relationship with former president Fernández resulted in a three-way split that helped dilute the trade union's power. A number of labor protests and strikes were carried out in the first half of 2016 in sectors such as oil and gas, transportation, education, and public workers. Among their demands, trade unions sought better terms in tri-partite salary negotiations, most of which were concluded by late June of the same year with salary rises above 30%, too little given an inflation rate of 40%.

On August 22, the CGT reached a turning point. After years of internal struggles among the three competing factions, its leaders concluded a reunification process that will strengthen the trade union's mobilization capacity, and bargaining power vis-a-vis both governments and business associations. For Macri this is a defeat. In his battle to outflank the trade unions and avoid a general strike, Macri announced at the beginning of August 2016 a health care reform, including the reimbursement of funds to obras sociales (social insurance) schemes organized by the trade unions.

The relations with the employers, which had worsened during the second term of Fernández, began to improve with the first measures of the new government (e.g., a reduction in export taxes, exchange rate liberalization and an arrangement with bond holders). But businesses are also directly affected by trade union pressure for salary rises, and by road blocks and strikes. The evaluation of the business sector by citizens is mixed: 39% are convinced that entrepreneurs perform well, while 53% have a poor or very poor opinion of entrepreneurs.

Approval levels for democratic norms and procedures continue to be fairly high. According to Latinobarómetro 2015, about 70% of Argentine respondents stated that democracy is preferable to any other kind of government (2010: 83%; 2013: 68%), while 55.4% agree and 31.6% strongly agree that the future of the country depends of competitive elections. Only a small rate of 4.8% had participated in unauthorized

Interest groups



Approval of democracy

9

protests, 18.5% declared that they may participate in unauthorized protests, while 74.3% stated they would never participate in unauthorized protests.

Political protests do not target the political class as a whole, as protests had during the 2001 to 2002 crisis, but are focused on specific policy issues and rarely question the constitutional framework. Of Argentine respondents, 36% stated that the liberty to participate in politics is guaranteed, 72% stated that elections are important and 57% stated that the last elections were clean or very clean. Meanwhile, 86% of respondents stated that they had participated in the last federal elections and 25.4% stated that they were ready to defend democracy by participating in protests. However, public distrust of democratic institutions, and public perceptions that democratic institutions are unrepresentative and ineffective has not disappeared. Only 32.1% of respondents stated that they felt represented by the government and only 24.6% by the parliament, while 69% of respondents stated political parties performed poorly or very poorly. In general, there is a wide gap between the general acceptance of democratic institutions and judgments about their functioning. Overall, 71.4% of respondents stated that the country is governed by powerful groups with strong self-interest and 43% stated that no progress had been made in tackling corruption in public institutions.

The sense of solidarity and trust among the population, and the confidence in the institutions of social and political representation have declined since 2012. Interpersonal confidence is chronically low. According to the Barómetro de la Deuda Social Argentina 2016 by the Argentine Catholic University of Buenos Aires, there is a clear gap between the lack of public confidence in governance and political representation on the one hand, and the increase in public confidence in civil society organizations between 2010 and 2015.

Fundamental social norms are poorly developed and Argentina has been described as “an anomic society.” Formal institutions are undermined by informal rules, personal connections (“amiguismo”) and loyalties. According to Latinobarómetro 2015, only 22.4% of respondents stated that one can trust other persons. Rule-flouting individualism and interest groups determine behavior. Overall, 67.1% of respondents were convinced that people do not normally say what they think, while 38% stated that solidarity with poor and marginalized groups is not guaranteed.

The perception of the political process as a zero-sum-game where the “winner takes all” is widely internalized and reflected in Fernández’s slogan “Vamos por todo.” Compromises are considered a defeat. Societal polarization increased over recent years. It is too early to evaluate if Macri’s more cooperative and dialog-oriented government style has reduced polarization in Argentine society.



1

Social capital

7



1

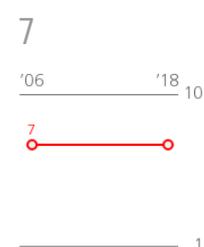
II. Economic Transformation

6 | Level of Socioeconomic Development

Key social indicators, which dramatically worsened between the second half of the 1990s and 2003, improved with the economic recovery in the following “golden years” (2003-2011), but inequality could only partly be balanced in these years of high growth. At the end of Fernández’s government, the proportion of people living in poverty had increased again to one third of the population, inequality persisted between provinces and social strata (education, health care, housing, access to the labor market), and the gap between the inflation rate and wage rises increased across most economic sectors. Income inequality and the scope of the subsistence economy remain a significant challenge for the new government. Due to dependence on subsistence production, a large share of the population continues to be excluded from market-based socioeconomic development. The first adjustment measures of the Macri government affected not only the most vulnerable population groups that depend on social funds, but also the so-called new poor (i.e. those with precarious jobs, recently unemployed) and SMEs ruined by the avalanche of imports. Exclusion based on gender, religion and ethnicity play a minor role compared to most other Latin American countries. According the HDR 2016, the employment to population ratio was 47.5% for women and 75.0% for men.

Question
Score

Socioeconomic
barriers



Economic indicators		2013	2014	2015	2016
GDP	\$ M	552025.1	526319.7	584711.5	545866.2
GDP growth	%	2.4	-2.5	2.6	-2.3
Inflation (CPI)	%	10.6	-	-	-
Unemployment	%	7.1	7.3	6.6	6.6
Foreign direct investment	% of GDP	1.8	1.0	2.0	0.8
Export growth	%	-3.5	-7.0	-0.6	3.7
Import growth	%	3.9	-11.5	5.7	5.4
Current account balance	\$ M	-12142.8	-8030.7	-16805.6	-

Economic indicators		2013	2014	2015	2016
Public debt	% of GDP	41.7	43.6	56.0	54.2
External debt	\$ M	146568.6	145471.8	173456.9	190489.7
Total debt service	\$ M	15485.4	16625.2	17824.8	25675.1
Net lending/borrowing	% of GDP	-	-	-3.4	-
Tax revenue	% of GDP	-	-	12.5	-
Government consumption	% of GDP	16.8	16.9	18.5	18.4
Public education spending	% of GDP	5.4	5.3	-	-
Public health spending	% of GDP	2.7	2.7	-	-
R&D expenditure	% of GDP	0.6	0.6	-	-
Military expenditure	% of GDP	0.8	0.9	0.9	1.0

Sources (as of October 2017): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

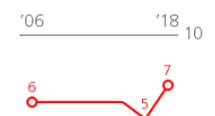
7 | Organization of the Market and Competition

The foundations of a competitive market economy are by and large assured, but the rules governing market competition are not consistent or always uniform for all market participants. Anti-competitive regulation and barriers to entry (particularly in network industries), a weak antitrust framework, and significant and unpredictable government involvement in private industry contributed significantly to Argentina's extremely poor economic performance at the end of the Fernández's government, as reflected in international rankings.

The Macri government suspended most of the previous governments' restrictions, applying a gradualist reform approach to improve the business climate and create the conditions for more integrated, competitive, productive and inclusive economy. With the Agreement on Productivity and Jobs, the Macri government tried to establish a broad consensus on measures to enhance economic development in key aspects (capital markets, cost of production, tax burden, labor legislation, innovation, competition, red tape and infrastructure). On the other hand, high interest rates for peso deposits (around 23%) have encouraged a lot of entrepreneurs to invest in financial markets instead of investing in productive sectors. About 40% of the work force are employed in the informal sector. As an alternative to the price control system put into place by the previous administration, the Macri government introduced an internet-based monitoring mechanism in supermarkets, the Electronic System Price Advertising (SEPA).

Market-based competition

7



1

The formation of monopolies and oligopolies and increasing market concentration during the 1990s led to the passage of a new antitrust law in 1999, which defines the standards applying to restrictive agreements, abuse, dominance and mergers. However, the implementation of effective antitrust policies has encountered severe barriers over time. The anti-monopoly policies are executed within a weak institutional framework, inconsistently enforced and occasionally abused for political gain. The government claims the power to make decisions on sensitive competition issues, especially in strategic areas such as energy or media. In some cases, crony capitalism has favored the creation of new monopolies. According to the Global Competitiveness Report 2016-2017, the effectiveness of Argentina's anti-monopoly policy ranked 126 out of 138 countries, a moderate improvement compared to 137 out of 144 in 2014-2015. Macri's attempt to overturn by presidential decree the 2009 media law designed to discourage monopolies was stopped by a decision of the Supreme Court, because Macri was judged to have disregarded the democratic processes.

The Macri's presidential victory led to a dramatic change in Argentina's trade policy. During the Fernández era, trade policy had been characterized by the expansion of formal and informal import restrictions, a policy of import substitution, and high export taxes. Even before scrapping the currency controls, the Macri government cut the agricultural export tariffs which had turned much of Argentina's farming community against the Fernández government. Taxes on soybeans have been reduced (from 35% to 30%) along with taxes on beef, wheat and corn. The previous government's policy of taxing exports to boost government revenues for social programs had resulted in hoarding and the displacement of many farming activities to neighboring countries. The parallel abolition of the most extreme and arbitrary import restrictions, which the WTO had ruled illegal, had ambivalent effects. The abolition of import restrictions facilitated the import of capital goods and technology necessary for capital-intensive production, but met widespread opposition from local business groups, trade unions and politicians. The opposition warned that the abolition of import restrictions would lead to job losses and economic disaster, as the local industry would not be protected. In response, Macri has adopted a more gradualist approach.

The effects of trade liberalization are contradictory and an evaluation after only one year is difficult. In general, there has been progress in this area due to the gradualist strategy of Macri, compared with the extremely closed economy under the Fernández administration.

According to the 2016-2017 Index of Economic Freedom, Argentina's average applied tariff rate was 6.6% in 2016.

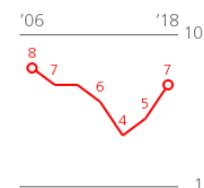
Anti-monopoly policy

6



Liberalization of foreign trade

7



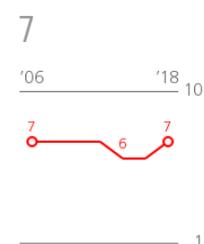
Argentina has a relatively small financial system. The banking system and capital markets are relatively well differentiated, but foreign banks are the only ones that are internationally competitive and meet international standards. Supervision of the financial sector is carried out by the central bank (BCRA), the Superintendency of Financial and Foreign Exchange Institutions (SEyC) and the Superintendence of Insurance (SSN). Supervision works moderately well, but shortcomings in the regulatory and supervisory framework remain. The legal framework for insolvency is the Argentine Bankruptcy Law of 1955 (Law Nr.24.522), which provides both liquidation and reorganization options. This has helped reduce the duration and cost of bankruptcy procedures. Banks remain susceptible to broad fluctuations because of their significant dependence on foreign capital.

Macri is aware that restoring macroeconomic stability is the most effective contribution policymakers can make to support the development of local financial markets. But this will be a long road. Another policy step would involve strengthening the independence of the central bank, which was politically instrumentalized over recent years. The establishment of a six-member Monetary Policy Council led by BCRA Governor, promoted by the new government, has been a positive sign. Other steps the government has initiated include strengthening the institutional monetary policy framework, establishing a clear price stability mandate for the central bank with operational independence, eliminating central bank financing of the fiscal deficit, moving to less frequent schedule for policy rate decisions as macroeconomic conditions stabilize and continuing to build credibility in Argentina's inflation statistics. Additional positive steps were that the central bank has eliminated minimum interest rates for time deposits and maximum interest rates for consumer loans, increased information on bank fees and fees to maintain saving accounts. According to World Bank figures, non-performing loans were rather low (2015: 1.7%) and the capital to assets ratio was at 12.3% in 2015.

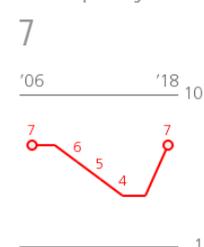
8 | Currency and Price Stability

High rates of inflation have persisted in Argentina since 2012. Bringing inflation to a single-digit level is a key priority for the Macri government. As an alternative to the "price control" system put in place by the Fernández administration, the Macri government introduced a monitoring mechanism in supermarkets via internet (SEPA), which transferred the responsibility for controlling prices from the state to the consumer. Additionally, the government gradually abolished the broadly frozen utility prices, recognizing that the tariff increases (part of reducing the large fiscal deficit) could have an inflation effect. According to the IMF in 2016, the central bank managed the transition to an inflation targeting regime under difficult circumstances rather well, and confirmed in September 2016 the inflation targets that were announced early in 2016. But at the end of 2016, the inflation rate was between 35% and 40% according to several major private consulting firms, and not between the

Banking system



Anti-inflation /
forex policy



20% to 25% range that the government had targeted at the beginning of 2016. Inflation remains one of the most sensitive issues facing the Macri government. The independence of the central bank is guaranteed. The new government removed the foreign exchange controls in which the official exchange rate and the parallel market exchange rate shows a spread of about 60%, and moved very quickly on the unification of the foreign exchange rate market.

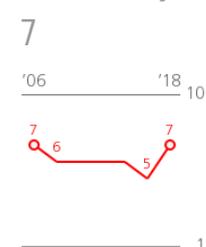
Having inherited a high fiscal deficit, one of the Macri government's priorities was to attack the unsustainable fiscal situation, and establish a more solid, stable and transparent fiscal system. The most important measures introduced by the Macri government include the elimination of export taxes on all products (except soy and leather products), a 5% reduction in the tax rate for soy exports (corresponding to 0.6% of GDP), an increase in the income tax threshold to ARS 30,000 per month, the introduction of a universal pension for all people aged 65 and over (equivalent to 80% of the minimum pension), the repeal by Supreme Court of 15% tax co-participation by provinces, and reduction in discretionary transfers to provinces. As the IMF has stated, the government maintains that gradualism and flexibility will be key to a successful fiscal rebalancing process, and that reducing the wages at both federal and provincial levels should be a slow process based on a contraction given the social cost associated with reducing public sector employment within an ailing economy. After a 5.4% primary deficit posted in 2015, the government reported a primary fiscal deficit of 4.6% of GDP for 2016. According to CEPAL, public debt remained almost unchanged (2015: 53.6% of GDP; 2016: 54.0%).

Concerning medium-term goals for fiscal consolidation, the tax system and pension reforms have come under scrutiny. Argentina's general government revenue as share of GDP (2015: 34%) is one of the highest among Latin American and emerging market economies, although it remains inefficient and burdensome. The government introduced several measures that reduced the tax burden in 2016 by about 1.5% of GDP compared to 2015.

The current pension system also faces important long-term challenges. A recently established commission on pension reform is tasked with elaborating a comprehensive reform of Argentina's pension system by the end of 2019.

On 29 February 2016, Argentina reached an agreement to end the legal dispute with its remaining holdout bondholders. The payment, which uses the proceeds of Argentina's record-breaking debt issue, will enable the country to leave behind a default that has barred its access to the international capital markets for 14 years. What remains from the \$16.5 billion debt issue after the holdout and exchange bondholders have been paid will boost the central bank reserves by some \$4 billion.

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 due to deficiencies in the judicial and administrative system, including government interference and corruption. As a consequence, property rights are not adequately safeguarded against political intervention, and many foreign investors have been forced to resort to international arbitration.

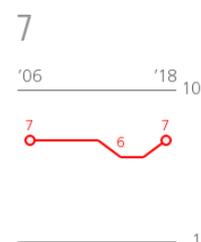
Under these circumstances, investment capital, domestic investment and demand will be restricted, and the long-run potential economic growth rate will be reduced. Following the implementation of broad reforms by the Macri government, there are signs that protections of property rights have been strengthened and undue state intervention reduced.

Argentina is a member of the WTO and the World Intellectual Property Organization. However, patent protection remains an ongoing problem, and the incidence of software piracy has increased. In the International Property Rights Index 2016, the country ranked 105 out of 128 countries (2014: 83) and scored 3.6 out of 10 (2014: 4.4).

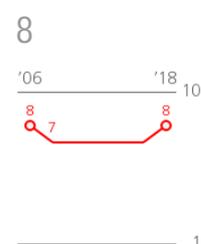
Private companies represent the backbone of the economy. The State Reform Law of 1991 privatized large portions of basic industry, infrastructure and other public services. As a reaction to the lack of investment by foreign companies, the Kirchner governments reversed the privatization trend of previous years, revoked some concessions and nationalized some public services. These measures, along with the price distortions created by having multiple exchange rates and inflation running at 40%, had turned Argentina into one of the worst places to operate a company. Nevertheless, even under these adverse conditions, private companies remained the backbone of Argentina's economy

During the first year of the current Macri administration, the government started to remove many of the obstacles introduced under the Kirchner governments and to return to the previous private sector friendly framework, albeit adopting a gradual approach. In response to the Macri government's first measures (e.g., a stable nominal exchange rate and a government commitment to a floating exchange rate), FDI inflows modestly increased. According to a report by the consultancy firm Orlando Ferreres y Asociados, fusions and purchases in bulk tripled in 2016. The reduction of import tariffs, on the other hand, also had negative effects for uncompetitive PYMES (i.e. SMEs). The abolition of import restrictions therefore met with opposition from affected companies and their pressure groups.

Property rights



Private enterprise



The Global Competitiveness Report 2016-2017 ranked Argentina 104 out of 138 countries (2014-2015: 106 out of 140), indicating a slight improvement in the quality of public institutions.

10 | Welfare Regime

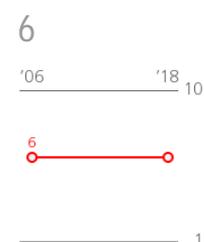
Social safety nets are developed to some degree, but do not cover all risks for all strata of the population. Argentina has a mixed and rather fragmented welfare system that includes public, private and corporate entities. The health care includes public, private and corporate entities, with a strong corporate sector (the trade unions' "obras sociales"). However, the pension system, since renationalization of the private system in 2008, is a state-run pension scheme that comprises a pay-as-you-go social security system. In addition, there are also basic provisions for unemployment, disability, sickness and maternity benefits.

The Kirchner governments prioritized social spending through various programs, but social protection in Argentina is not administrated through a coherent system. Instead, social protection is provided through a collection of individual interventions and isolated programs, which have proven to be an inadequate alternative to a structural social policy. It is therefore unsurprising that 39% Argentineans stated in 2015 that social security is poorly guaranteed and 24% stated that social security is not guaranteed (Latinobarómetro 2015). According to Transparency International 2016 analysis, Argentina's conditional cash transfer program Asignación Universal por Hijo (AUH) ranked highest out of seven social security programs across Latin America, with an average overall score of 4.75 out of 5 points.

Independent investigations have found that the poverty rate has increased to one third of the population. This new poverty is more diffuse than traditional structural poverty, particularly in metropolitan areas. It is in part consequence of the import liberalization, which provoked the loss of about 18,000 jobs in 2016, and seems to be associated with growing informal employment and low qualification of labor force. Just a few months after his victory, Macri announced measures to adjust social welfare schemes, including a VAT rebate for pensioners and the extension of the AUH program to all self-employed workers. The government is also considering new subsidies for pensioners and new wholesale food markets in Buenos Aires to help ease food price inflation.

Institutions and programs designed to compensate for gross social differences exist but are highly dependent on political cycles and are limited in scope and quality. There has not been a real commitment (rhetoric aside) to promote equal opportunity through the development of welfare institutions. The social disadvantaged, poor women, indigenous peoples and immigrants do not have equal access to public services.

Social safety nets



Equal opportunity

7

Female participation in the labor market is 47.3% compared to 75.0 for men. The Fernández government began to address these problems, but clear-cut policies have not become visible. In the Global Gender Gap Index 2016, Argentina ranked 33 out of 144 with a score of 0.735. The country ranked 101 for economic participation and opportunity, 54 for educational attainment, first for health and survival, and 22 for political empowerment.

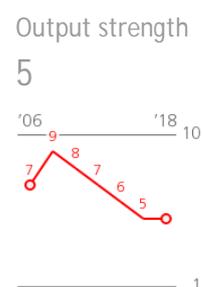
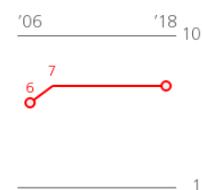
The skills gap between education and labor market requirements in the 21st century begins in secondary school. Of the Argentine labor force aged between 25 and 64, 58% have not finished secondary school. Some 75% of those not completing secondary school are members of poor families, indicating a vicious circle of declining educational attainment and increasing social exclusion.

11 | Economic Performance

Economic performance has declined markedly since 2012. With Macri and the Cambiemos coalition government, the macroeconomic framework experienced a significant change. Though balancing the first year of the government's ambitious reforms, macroeconomic performance has been mixed.

First, the economy remains in recession (-2.9% in 2016) and the inflation rate was about 40% in 2016, mainly due the exchange rate and tariff adjustments (gas and electricity). Foreign trade has been affected by the recession in Brazil, Argentina's principal trading partner. Domestic consumption declined, while interest rates and the public sector deficit are high. Many small and medium businesses have been or are on the verge of bankruptcy due to the abolition of import restrictions and a lack of competitiveness.

On the other hand, the recent recession has been the mildest recession over the last 15 years and seems to be reversing. The high unemployment (8.9%) reflects in part the reversal of previous massive hiring for political reasons, while the price increases reflect clumsily managed but unavoidable one-time adjustments. In addition, the efforts to reduce the high fiscal deficit are considered as serious. Though timidly and less than expected, foreign direct investment is increasing. The statistics agency INDEC was reformed and inflation data now accurately reflects economic reality. Good agricultural harvests have also helped the economy and a tax amnesty has incentivized Argentines to repatriate dollar assets to the country.



12 | Sustainability

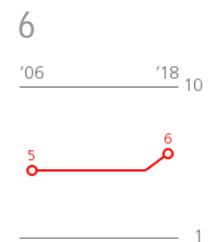
Argentina faces significant challenges in relation to the preservation of its natural environment. Though the goal of sustainable development was incorporated in Article 41 of the 1994 constitution as the “polluter pays” principle, environmentally compatible growth receives only sporadic consideration and has a weak institutional framework. Public environmental awareness is still underdeveloped, and punitive measures for infringements are more an exception than the rule.

Following the general elections in 2015, a new Ministry of Environment and Sustainable Development (MAyDS) was created, replacing the Secretariat of Environment and Sustainable Development (SAySD). The primary functions of MAyDS include environmental policy development and implementation, management of environmental affairs, information dissemination, management of relationships with NGOs, and national coordination regarding international conventions. A core challenge for the new ministry will be the interpretation of its role in a context of economic transition and restructuring. Expenditure on environmental policy in Argentina appears low, but is increasing. In Yale University’s Environmental Performance Index 2016 (EPI), Argentina scored 79.84 out of 100 and ranked 43 out of 180 countries.

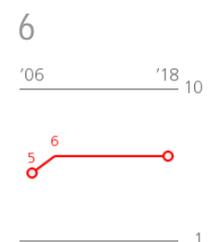
During his election campaign and since assuming office, Macri has vowed to address both the perceived lack in excellence in primary and secondary schools, and the national 50% drop-out rate for secondary schools. In July 2016, Macri and the education minister, Bullrich, launched the government’s education programs. The 13-point plan includes a guarantee to match the 6% of GDP earmarked for education that was fulfilled by successive Kirchner governments. The plan will also maintain the primary-secondary school structure and the guarantee of secondary education “as a right” introduced by the 2006 National Education Law. However, the plan avoided many specifics beyond the GDP-based spending pledge, and failed to address the conflict between inclusion and quality in education that critics argue characterizes the existing model of education.

On October 18, 2016, the government’s proposed multiple-choice assessment test in language, mathematics, and natural and social sciences was blocked by the teachers’ unions. The teachers’ unions argued that these tests were the beginning of a move to cut public budgets and privatize educational provision. As result, the new PISA-report has no figures for Argentina. The structures necessary for efficient school-system administration have only been developed in a few provinces, and the widening quality gap between rich and poor provinces is disturbing. The entire education system suffers from low quality and salaries, as well as deep inequalities between the federal states. Some 70% of scientific personnel are concentrated in only three

Environmental
policy



Education policy /
R&D



provinces; the federal capital, Córdoba and Santa Fé. The province of Buenos Aires is severely disadvantaged by the uneven distribution of financial resources.

The latest available data on public R&D expenditure (2014: 0.6% of GDP) shows that engagement in R&D is still very low. Overall, the performance of Argentina's tertiary education institutions is somewhat mixed, combining significant weaknesses in the national university system, with some excellent public and private think-tanks.

Governance

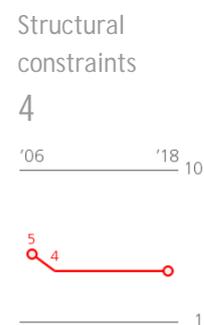
I. Level of Difficulty

Structural constraints on governance, which were moderate during the “golden years” of growth (2003-2011), have slightly increased since 2012.

The main structural constraints stem from Argentina’s position in the global economy. The subregional integration regime, Mercosur, has suffered due to the recession in Brazil, Argentina’s largest trading partner, and is politically divided over Venezuela’s membership. The U.S. dollar and economy have strengthened, attracting investment into U.S. economy at the expense of emerging economies (e.g., Argentina). This trend has been further fortified by the U.S. presidential victory of Donald Trump. At the same time, Trump’s “America first” policy and preference for protectionism collides with Macri’s advocacy for openness, free trade, and regional and transnational integration.

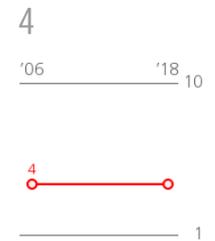
On the other hand, Trump’s partial retreat from Latin America could present new opportunities to strengthen relationships with Asian and European countries. Though these opportunities come with some uncertainties. For example, China’s economic growth rate recently decreased and as result its demand for soy bean decreased, a major export product for Argentina. China’s new foreign policy strategy aims to go beyond inversions in infrastructure and mineral exploitation, and promote production chains in Latin American countries. This opens new prospects for Latin American economies and might to some extent replace the lost investment from U.S. companies. The European economy, an important export market for Argentina’s agrarian products, is only slowly recovering from recession. The protracted conflict with the government’s major remaining holdout bondholders, who had not participated in the 2005 and 2010 debt arrangements, was settled and has opened the doors to international financing.

Most domestic difficulties (e.g., the fiscal deficit and high inflation rates) are not really structural and could be managed by a capable political leadership. However, poverty and the informal economy in urban areas are still considerable constraints, as is the educational sector that has long been underfinanced and incoherent.



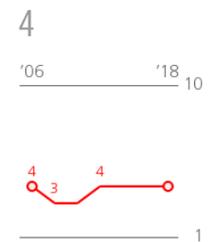
Argentina has a fairly strong tradition of civil society, but interpersonal trust and social capital are rather low. Civil society organizations, particularly human rights groups such as the Madres de la Plaza de Mayo, played an important role during the transition period from authoritarian to democratic governance. However, with the strengthening of the two major political parties, the PJ and the UCR, the political influence and clout of civil society organizations has diminished. Nowadays, civil society groups are rather fragmented and their objectives somewhat diffuse. However, NGOs are generally robust and play a more substantial role in society than in politics. Notwithstanding, NGOs also play an important role with respect to monitoring, influencing and in some cases obstructing government decisions on a wide range of issues. Social movements and public protests offered an increasingly tougher challenge for business and Macri's reform initiatives. Leftist social movements increased mobilization, with large-scale "pots and pans" protests held in July and August 2016, focusing on government-sanctioned hikes in utility prices, some of which increased by over 500%. Some NGOs were undermined by corruption during the Kirchner governments. In recent times, there is a growing tendency for trade unions and social movements to protest together.

Civil society traditions



There are no severe ethnic or religious cleavages in Argentina. Division along social or ideological divides was moderate in the post-crisis years. However, society and the political elite were increasingly polarized during the Kirchner governments, so reducing the bandwidth of the political spectrum of Kirchnerists and anti-Kirchnerists. The expansion of the middle class, due to wage increases and increased consumption capacity during the "golden years" (2003-2011), strengthened middle class demands, though without finding a basic consensus toward common positions and coordinated action. Middle class protests are mainly due to economic pressure caused by inflation, unemployment, and public insecurity and violence. Street blockades have also increased. A significant threat for the Macri government are social protests allied with trade union strikes.

Conflict intensity



In recent years, criminalization of social protest in Argentina has spread from the large urban centers to the periphery. Indigenous communities and citizen assemblies were victims of repression for their resistance to natural resource extraction projects. Political protests against Macri's national housing plan in Mar del Plata in August 2016 underscored the need for the administration to register some tangible economic achievements as soon as possible. Another conflict resurged in the context of gold mine activities of the Canadian mining giant Barrick Gold, located in the northwestern province of San Juan.

II. Governance Performance

14 | Steering Capability

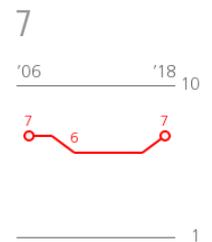
On taking office, Argentina's new center-right government inherited pervasive macroeconomic imbalances, microeconomic distortions, a weakened institutional framework and largely isolated country. These deficits established the starting point for Macri's own political priorities. These priorities were clearly defined at the beginning of the Cambiemos coalition and implemented with a mix of shock therapy (e.g., floating exchange rate that led to a 40% devaluation in the peso, abolition of import restrictions, reduction of export taxes for the agricultural sector and an agreement with the government's holdout bondholders) and gradual strategy (e.g., increase in utility tariffs, measures to mitigate the social costs of reform, return to the international financial market, normalization of relations with regional and international partners). President Macri's plan was to introduce some necessarily painful economic corrections in the first half of 2016, with a view to reducing inflation and kick-starting economic growth in the second half of 2016. However, GDP fell by 3.8% and the inflation rate remained at around 40%.

Despite Macri's convincing package of reform measures, Macri lacked a coherent vision, an elaborated implementation strategy and a planning unit that could define sequence of implementation. The price of these deficits included policy improvisation, incoherent measures, and political miscalculations regarding the social costs and effects of some measures. Some members of the government complained of an overloaded agenda, lack of coordination and monitoring of results. As a consequence of growing criticism of the government's ineffective economic management, in December 2016, the president passed responsibility to a more collegial economic team, led by Nicolás Dujovne as treasury minister and Luis Caputo as finance minister.

Overall, Macri has maintained his strategic priorities during his first year, and was sufficiently flexible to adapt policy items and the composition of his cabinet where circumstances demanded change. Macri was also capable of forming ad hoc partnerships for the implementation of policy priorities; gaining and organizing expertise; building bridges with moderate opposition members in Congress, the provinces and civil society; and reinforcing divisions within the Peronist movement. However, nearing the 2017 election campaign, his reform measures still lack a coherent vision.

Question
Score

Prioritization



In 2015, President Macri campaigned on promises to end the aberrations that have plagued Argentina's political and economic environments, including fiscal profligacy, labor unrest, rising protectionism, drug-related violence, corruption and expropriations. Macri began reversing some of Fernández's populist policies by eliminating or reducing export taxes on various agricultural products, lifting restrictions on foreign currency purchases and abolishing subventions for utility services. He also issued a controversial decree with respect to the 2009 media law designed to discourage monopolies and initiated several anti-corruption measures (see "anti-corruption policy").

Instead of loyal party members, Macri's cabinet was composed of technocrats, which were solidly prepared to face the inherited problems. Notwithstanding, the implementation of the promised reforms confronted various impediments. Congress was dominated if not fully controlled by the opposition, and forced the government to move carefully and search for allies. The central bank's cash position was critical with very low liquid reserves. Not least, the external economic conditions were rather unfavorable for the success of economic reforms.

Notwithstanding, the government had to move quickly to exit asphyxiating exchange and trade controls, unify exchange rates, modify the pace of fiscal spending, and reduce inflation. The Macri government's first step was to begin tackling the country's economic imbalances by removing exchange rate controls and letting the peso float. The administration managed this successfully. However, the peso's depreciation led to a temporary surge in inflation. The government's second step involved negotiating with Argentina's powerful labor leaders to get them to accept wage restrictions in the "paritarias," the annual wage negotiations, which was only partly successful. Undisputed government successes include the reform of the state's statistic agency INDEC, the deal with the government's holdout bondholders and the country's return to international capital markets. Ambivalent government policies include the abolition of import restrictions (resulting in bankruptcy of a number of SMEs), the drastic increase in utility tariffs for consumers and the comprehensive reduction in the number of public sector employees.

In sum, the implementation of economic measures proceeded quickly, but results at the end of Macri's first presidential year are mixed. Macri's preferred gradualist strategy was sensitive to the political climate, but was high risk due to continued price distortions, persistence of economic imbalances and slow recovery in investor confidence, which hampered investment and economic growth. On the other hand, Macri was unable to integrate his reform measures into a coherent vision. Due to the persistence of high inflation, poverty and economic recession, public patience started to erode and trade union resistance increased. Implementation of further reforms will depend on the results of the 2017 mid-term elections, which will mark a kind of plebiscite on Macri's reform policies.

Implementation

7



Macri's policy style stands in sharp contrast to that of his predecessor. Due to his entrepreneurial background, Macri has shown a tendency to take advice before acting pragmatically, and has preferred dialog to confrontation and polarization. He also seems to be more capable and prepared to learn, if necessary adapting policy proposals and changing staff. This flexible strategy enabled Macri to build bridges with important political and societal actors, successfully "seducing" potential veto powers with compensations.

The three main targets of Macri's strategy were trade unions, moderate Peronist opposition members and provincial governors. The trade unions were seduced by a health care reform, which provides major financial boosts to schemes run by trade unions. The second group targeted by Macri's strategy was the moderate faction of Peronists under the leadership of Sergio Massa. To keep his allies and outmaneuver the political opposition, in June 2016, Macri sent a bill to the lower chamber of Congress, containing a tax amnesty to encourage Argentines to repatriate billions of U.S. dollars in undeclared savings held in overseas accounts to boost incomes for pensioners. A third bridge was an accord with (predominately Peronist) provincial governors, which broadly outlined the reimbursement of the so-called co-participation funds, intending to ensure support for the government's legislative initiatives in the Senate over which governors held significant influence.

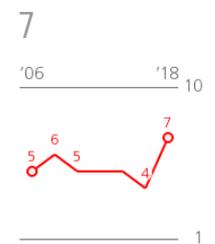
However, this strategy of dialog and bridge-building has limits. The alliance with the Massa faction in the national Congress, where Peronists held a clear majority, secured support for key elements of Macri's legislative agenda, but the alliance has grown weaker due to an increasingly unified PJ in Congress. Meanwhile, the bridge-building with trade unions has also eroded as the unifying intentions between the different trade unions progressed.

15 | Resource Efficiency

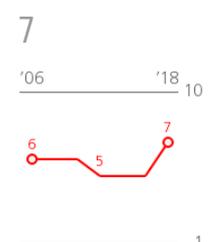
Some of the main structural problems, which were linked with the inefficient use of resources that the Macri administration inherited, included the president's discretionary budgetary powers, public servant appointments, inadequate financial auditing procedures, and the lack of transparency regarding the planning and implementation of the national budget. Meanwhile, Macri is yet to use the so-called Economic Emergency Law, which enabled previous governments to change budget items or increase expenditures without parliamentary approval. Combined with a consistent underestimation of state revenues in proposed budgets, this would allow for additional expenditures of almost 30% that are not subject to external control. In effect, no reliable information about the deviation between actual and planned budget expenditures is available.

Since 2012, the budget shows deficits and the central bank's dollar reserves have decreased steadily due to a lack of access to international financing, reduced

Policy learning



Efficient use of assets



economic growth rate in China, the fall of world market prices for primary products, associated decline in export earnings and capital flight. The Macri administration intends to reverse this trend, but the margin of action remains very small.

Successful steps toward budget consolidation included the arrangement with the government's holdout bondholders and the access to the international finance market, which were a consequence of the first reform measures of the Macri administration. Other government policies included adopting a free-floating exchange rate, the abolition of export and import restrictions, tackling public debt without tapping the country's dollar reserves or pension funds, a cut in subsidies for utility services and a parallel rise in utility service tariffs.

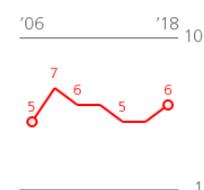
Additionally, there are signs of a more merit-based and competitive recruitment of government and administration personnel, and a retrogression of clientelistic networks. The number of employees in the public sector, strongly expanded during the Kirchner governments, was substantially reduced. Notwithstanding, many jobs in the public sector remain the result of machinations within clientelistic networks, especially at the provincial level. At the top level, erratic and sometimes abrupt personnel changes, very common in previous years, declined at the federal level. The National Institute of Statistics (INDEC), highly instrumentalized for political objectives during the Kirchner governments, was reformed with political appointees replaced by technical staff. This was without doubt a very important step in confidence-building.

Since the beginning of his presidency, Macri defined clearly his policy priorities, concentrated on a set of reform steps, and rebuilt confidence between government, social actors, provinces and citizens. Macri's government style (characterized by dialog, listening, bridge-building and team work) was very constructive and a sharp contrast to the confrontational style of Fernández. An additional resource toward policy coordination is that Macri leads a governing coalition party that has a rather low and diffuse ideological profile, and a cabinet of experienced technocrats without an intimate affinity to party factions. His strategy of bridge-building succeeded in some arrangements with province governors, trade unions and the moderate faction of Peronists led by Massa.

Despite the partial success of Macri's bridge-building strategy, and having built up a strong nationwide support base, Macri failed to effectively coordinate his particular reform steps at the bureaucratic level, eliminate contradictions, and bring his team to commit to concerted and transparent actions. The coordination of government policies is in principle the task of the chief of cabinet and the secretaries of the Inter-Ministerial Coordination of Public Policy. However, some government members warned of overload, and complained about the multiplicity of issues during the first 12 months and a lack of policy prioritization. Responsibilities were not always ascribed in a transparent manner to avoid redundancies and frictions between government branches. The president still faces a broadly pro-Peronist majority in

Policy
coordination

6



both houses of Congress and growing opposition from the now unified trade unions, while his bridge-building strategy showed signs of erosion during the last weeks of 2016.

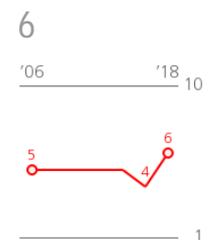
One of the most damaging legacies of the Fernández's presidency was endemic corruption, which was rarely investigated. It is therefore not surprising that Macri declared the fight against corruption to be one of his priorities. However, the obstacles that prevent the efficient prosecution of corruption are largely not moral or legal, but are rather a set of informal practices that discourage, preclude or frustrate effective investigation. Therefore, transforming the aim of tackling corruption into a concrete and successful policy was a big challenge for the new government. During the first year of his administration, Macri has taken decisive anti-corruption steps, and established new institutional and legal arrangements to prevent corruption. One example is the law that guarantees public access to information. Among the judicial reforms, the judicial definition of repentance for corruption and organized crime was expanded, and the federal oral courts of the Federal Capital were strengthened. The Asset-Forfeiture Bill designed to recover property from corruption cases that was bogged down in Congress had been approved in the Senate and modified in deputies. The Senate did not return to discuss it by decision of Kirchnerism. However, reliable auditing of government spending and the regulation of party financing remain issues for future reform.

16 | Consensus-Building

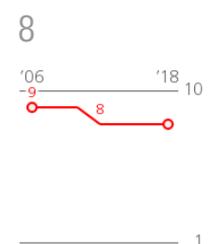
All relevant political actors agree that consolidating democracy should be one of Argentina's development goal. Though ideas about the obstacles encountered and the strategies that should be applied vary widely. In addition, apart from consensus on these basic goals, there is no agreement between the different political and societal forces on how to eliminate defects in democracy or how to strengthen political institutions. The defeat of the Peronist presidential candidate, Scioli, and the victory of the neoliberal Macri in the 2015 presidential elections can cautiously be interpreted as a sign of a minimal consensus among an increasing proportion of the population that the populist understanding of democracy (i.e., the direct relationship between a political leader and wider public, which circumvents democratic institutions and the separation of powers) has led the country into a development deadlock and international isolation. Recognizing this problem, Macri promised a reevaluation of the democratic institutions, respect for the separation of powers and a strengthening of the constitutional state. However, for his opponents in leftist circles, Macri's victory was a soft coup d'état (*golpe blando*), and his cabinet an anti-democratic club of technocrats and big business interests.

All relevant political and economic actors agree that consolidating a prosperous market economy should be one of Argentina's long-term strategic development goal, but ideas about its configuration and the strategies that should be applied vary. Left-

Anti-corruption policy



Consensus on goals



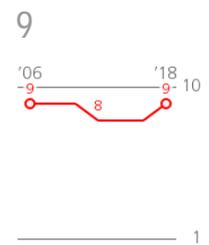
wing Peronists (especially Fernández's coalition FPV), a large proportion of trade unions, and the center-left non-Peronist parties prefer a national development strategy, under the slogan of "autonomy and sovereignty." Their preferred strategy would be based on a strong, consumer-oriented internal market and protections for local industry. Center-right parties, export-oriented local and international firms and trade unions, and the agrarian sector focus on a world market oriented, open economy strategy, which focuses on Argentina's comparative advantages, and strong investments in science and technology for strengthening competitiveness. Since the 2015 elections, the open economy forces are represented by Macri's pro-business Cambiemos coalition.

Today there are no relevant veto actors left with an explicit anti-democratic agenda. Two important former veto powers (the military and the church) have been seriously weakened as compared to previous decades. Not a single trade union did resort to violence as a strategy and are motivated by anti-democratic ideologies. On the other hand, Argentina's trade unions have never had a tradition of defending democracy as a political regime. The power of the strongest trade union organization, CGT and its leader Hugo Moyano, increased during the Fernández's government, but has decreased since the change in government and was partly neutralized by competing, government-friendly trade unions. Attempts under Moyano's leadership to impose anti-market strategies by illegal and even criminal means have not been repeated under the new government. As in the last years of Fernández's presidency, labor strikes in 2016 were also supported by social movements. However, none of these actors have resorted to force. Informal power games within and between party factions, corporate actors and social movements remain primarily issue-oriented and directed toward the preservation or attainment of power, but do not question the democratic order.

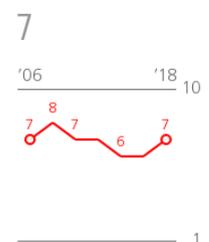
The central cleavage in Argentina is neither religious nor ethnic, but socioeconomic with political connotations, and a high degree of (sometimes populist) polarization between Peronist and anti-Peronist groups. However, the traditional cleavage maintained by Peronist populism (i.e., the people against the rich oligarchs) changed in the 2015 elections.

One of the priorities of Macri was to replace this policy style of confrontation and exclusion with dialog between the government and potential allies, building bridges and forming issue-oriented coalitions through the use of incentives, to ensure parliamentary support for structural reforms, close gaps between the government and parts of society, end polarization and restore lost confidence. Instead of implementing the reform measures with a shock strategy, as was recommended by some economists, the new president favored a more gradualist strategy, an expression of his new policy style to avoid provoking opposition and reduce the political costs as much as possible. At the end of the first year of the Macri government it is too early to evaluate seriously if this change in policy style and the attempt to moderate the

Anti-democratic actors



Cleavage / conflict management



traditional cleavage will be sustainable. The administration's relatively high approval ratings declined slightly toward the end of 2016, but remained above the levels of the previous administration. Nevertheless, huge economic problems and the starting mid-term elections campaign may favor a radicalization of political discourse, and signal the end for successful bridge-building.

The political leadership takes the interests of civil society – albeit selectively – into account. It accommodates civil society groups only in part and when they can put pressure on the government. However, there is no formal policy framework that facilitates civil society participation. Instead, informal ways of exerting influence dominate.

Relations between the government, organized labor, business groups and civil society organizations had been largely managed since the return to democracy through neo-corporatist arrangements that moderated distributive struggles in an increasing open economy. But with the economy entering recession under the growing neo-protectionist measures of the two last years of Fernández's government, this neo-corporatist strategy became increasingly difficult. Wage agreements have been paralleled by bilateral government-business pacts on maximum prices in various sectors. Macri has taken into account civil society demands and searched for allies for his reform measures, but did not assign an important role to civil society actors or channels for greater participation

After the victory of the Cambiemos coalition, the opposition voiced concerns that the new government would end the trials of people alleged to have committed human rights violations during the military regime. Notwithstanding these insinuations, the trials continued, as the Argentine judiciary continues to investigate and prosecute individuals implicated in human rights abuses committed under the military regime. In May 2016, former Junta leader Bignone, previously convicted for human rights abuses, was convicted along with 14 other military officers for their roles in Operation Condor, a campaign of political repression and state terror by several South American military governments in the 1970s and 1980s. In August 2016, 38 former military officers were convicted for their roles in the military dictatorship, 28 were sentenced to life in prison.

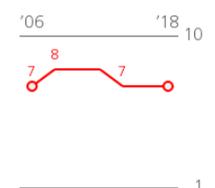
Notwithstanding the continuing prosecutions of human rights violations, there was little progress in bringing to justice those from the civil, business and legal sectors. Only one member of the judiciary and two businessmen have been convicted to date. This may change when the bicameral commission, created by law in 2015, delivers its report, which should identify the economic and technical actors that contributed to or benefited from the military dictatorship by providing economic, technical, political, logistical or other support.

During his March 2016 visit, President Obama announced a decision to declassify U.S. documents concerning the era of Argentina's military rule.

Civil society participation
6



Reconciliation
7



17 | International Cooperation

In response to the growing isolation of the country during the second Fernández government, Macri declared in his election campaign that foreign policy would be one of his policy priorities in sharp contrast to his two predecessors. With a set of reform measures, the new president started under the leitmotiv “come back to the world” to dismantle years of protectionism, lift trade barriers, liberalize the exchange rate, develop constructive arrangements with international creditors (e.g., IMF, World Bank and holdout bondholders) and normalize foreign relations with other nations (e.g., the European Union and United States). For the new pragmatic decision-makers, foreign policy should be based on facts and evaluated on results. An additional idea of the reanimated foreign policy is that of “concentricity,” which focuses on regional relations as a means to gain support and allies.

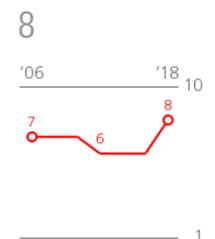
With respect to international cooperation, the Macri government has re-established a constructive relationship with the IMF. In September 2016, the IMF stated that Macri’s government “has made important progress with its ambitious and much needed transition toward a better economic policy framework.” The World Bank also judged Macri’s core reforms as positive. Relations between Macri’s government and the U.S. Obama administration also notably improved. Finally, economic, political and scientific relations with EU member states and China were tightened.

In sum, Macri has reopened a very extensive agenda on international policy and cooperation, with visits to European and Latin American, but also Asian and Pacific countries to re-establish confidence and attract foreign investments. The new president has confirmed that he will occupy the G20-presidency in 2018, underlining his intention to promote Argentina’s accession to the OCDE, and has initiated Argentina’s role as an observer in the Pacific Alliance. The new government has learned from international know-how and tries to adapt external advice through different instruments to domestic realities. But the hitherto existing lack of a coherent economic policy and long-term development strategy makes it difficult for both sides, external partners as well as domestic decision-makers, to integrate the external advice and experiences in a coherent manner.

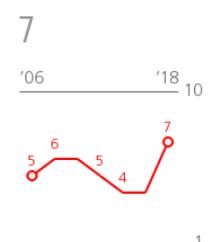
In sharp contrast to his predecessors, President Macri has invested a lot of energy in changing the international perception that Argentina is a pariah, using his profile as a pragmatic businessman and the forming of a technocratic solution-oriented government.

Though contested by the remaining leftist movements (and some governments) in Latin America, Macri is a credible and reliable partner for a large proportion of the international community. The government has repeatedly articulated its commitment to international norms and compliance with existing international agreements, and has gained the confidence of international donors and compliance-monitoring

Effective use of support



Credibility

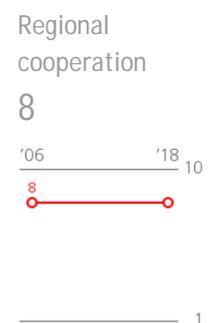


institutions. However, this high degree of international acceptance has until now not resulted in concrete commitments (e.g., substantial foreign direct investments) in the amount expected by Macri. Given years of political and economic instability, self-inflicted international isolation, hostility toward foreign firms and the uncertainty of an election year, international investors remain hesitant. To date, international investors have not been willing to take risks. Notwithstanding, the successful debt arrangement with the government's holdout bondholders was widely seen by the international community as a very positive step toward rebuilding confidence and reintegrating the country into the international arena.

Argentina's political leadership cooperates with all neighboring states and complies with rules set by regional and international organizations. Both the Kirchner and Fernández presidencies focused on the strengthening of Mercosur, notwithstanding disputes with Brazil in the commercial sector, the pulp mill conflict with Uruguay and gas supply disputes with Chile. Relations with Brazil, Argentina's most important partner, have deepened since 2010 on the basis of a wide range of treaties, fortifying the strategic partnership between the two strongest Mercosur partners. Both countries have emphasized their will to accelerate and intensify the bilateral and regional cooperation and integration processes, to diminish existing asymmetries, and to integrate productive structures with the intention of competing better in the world economy.

This aim has not changed following the changes in government in Argentina in 2015 and Brazil in 2016, but experienced some strategic shifts. The more right-wing presidents, Temer and Macri, share the same market-oriented development model, are critical to post-liberal integration and intend to open Mercosur toward the Pacific Rim. Both governments perceive Mercosur as an open integration regime, which should build bridges to other integration regimes (e.g., the Pacific Alliance), and fortify relations with Mexico, Peru, Colombia and Chile. They also attempted to give new impetus to negotiations with the European Union, which had been blocked for more than one and a half decades. Since August 2016, Argentina is one of 44 observers in the Pacific Alliance.

Additionally, but not with the same priority, the Macri government intends to strengthen the Union of South American Nations (UNASUR) and the Community of Latin American and Caribbean States (CELAC). There is also a greater distance to the leftist governments in Venezuela, Bolivia and Cuba, and to south-south cooperation beyond the region. In addition, Argentina along with the three other founding members of Mercosur (Brazil, Paraguay and Uruguay) suspended Venezuela from Mercosur for having not incorporated into national law key Mercosur rules on human rights and trade.



Strategic Outlook

Fifteen years after the deep 2001 to 2002 crisis, and at the end of the first year of the center-right government of the Cambiemos coalition, prospects for achieving sustainable political and economic development in Argentina are promising, but not free of challenges. At present, the political landscape seems to be less personality-driven, populist or clientelistic, and more oriented to institutional rules, pragmatism and professionalism. Popular discontent, particularly among the middle classes, has declined since the start of the new government. The government's approval rating (51% at the end of 2016) is comparatively high, but public patience will not be unlimited. The government promised an economic upturn toward the second half of 2016, but didn't achieve this. Without doubt, reducing the inflation rate to a single-digit level is a key priority, which will require supporting the central bank's disinflation efforts and strengthening the credibility of the monetary framework.

The structural basis for sustained economic development remains fragile, as the government's development strategy remains focused on exploiting the comparative advantages of a country with abundant natural resources. In the long run, however, Argentina needs to focus on more than just export growth. Structural reforms, as well as a profound improvement in the general investment and business climate, appear indispensable. Susceptibility to external shocks, particularly to world commodity-market prices, remains high, while the informal sector remains large. The repatriation of capital has until now proven only partially successful. Ensuring a sufficient energy supply and a science-based production structure, which would facilitate a more competitive and diversified economy, remain additional challenges for the coming years.

In the context of prolonged economic stagnation, the use of decree powers afforded to the executive in Argentina's political system continues to be a temptation. Considering Argentina's strong tradition of protest and powerful trade unions, the government has a dilemma. If the government does not give in to trade union demands during wage bargaining rounds, the government could face destabilizing protests. However, if the government does, it risks producing more economic distortions that will push the economy further into crisis. Reforms that would successfully address long-standing institutional weaknesses remain a challenge, but will be very difficult in the face of strong veto groups and any attempt to strengthen the bureaucracy will fail due to political resistance in Argentina's clientelistic political system. The new government has taken promisingly decisive steps to clear up the mysterious death of prosecutor Nisman, investigate the corruption scandals that include the highest political authorities, strengthen the independence of the judiciary, and take seriously public discontent in the face of impunity and corruption, especially in a context of high inflation, economic recession and high poverty rates.