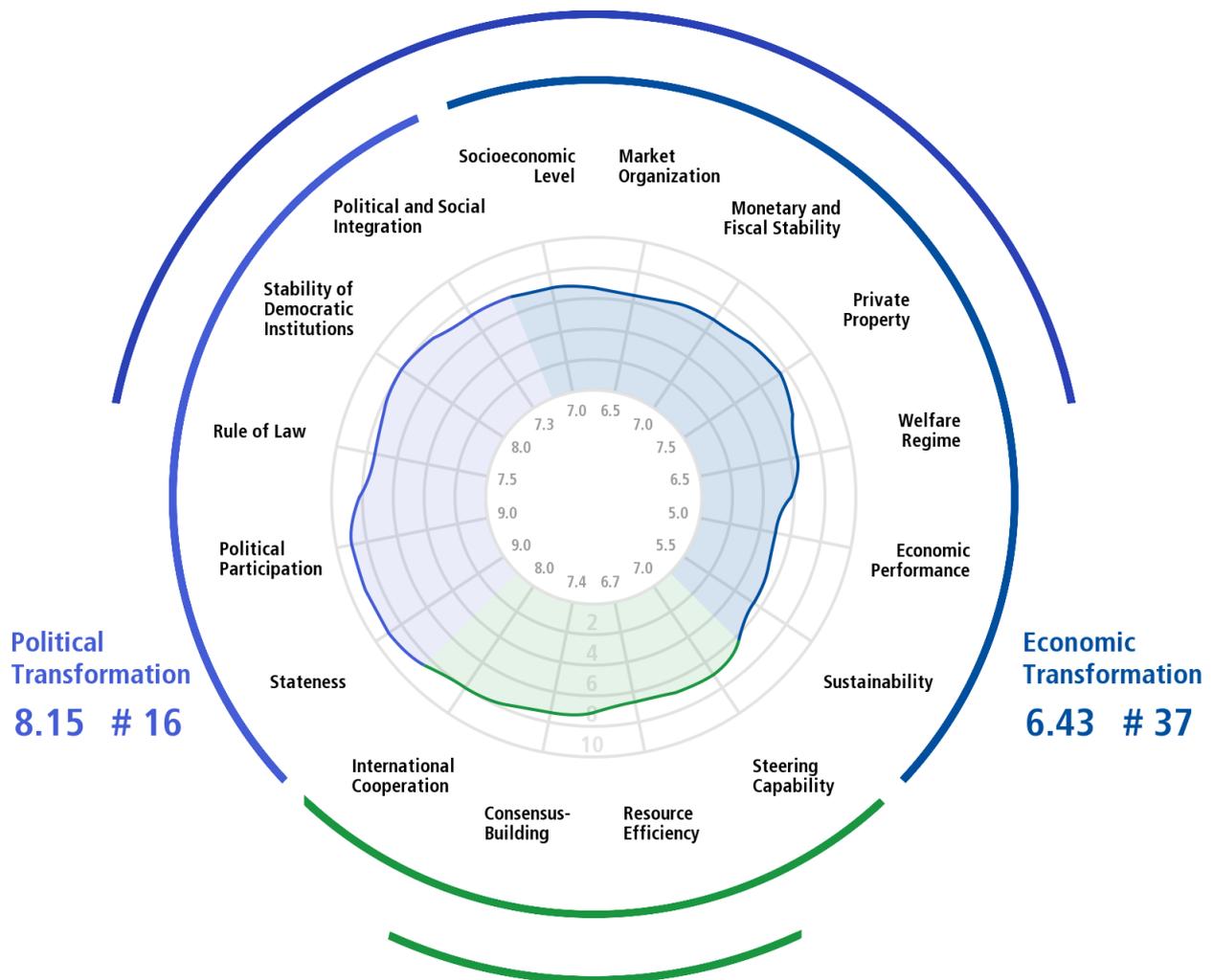


Argentina

Status Index

7.29 # 19

on 1-10 scale out of 137



Political Transformation
8.15 # 16

Economic Transformation
6.43 # 37

Governance Index

6.10 # 23

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2020**. It covers the period from February 1, 2017 to January 31, 2019. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

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Key Indicators

| | | | | | | |
|--------------------------|--------|-------------|--------------------------------|--------------|----------------------|--------------|
| Population | M | 44.5 | HDI | 0.830 | GDP p.c., PPP \$ | 20567 |
| Pop. growth ¹ | % p.a. | 1.0 | HDI rank of 189 | 48 | Gini Index | 41.2 |
| Life expectancy | years | 76.4 | UN Education Index | 0.842 | Poverty ³ | % 2.4 |
| Urban population | % | 91.9 | Gender inequality ² | 0.354 | Aid per capita \$ | -0.1 |

Sources (as of December 2019): The World Bank, World Development Indicators 2019 | UNDP, Human Development Report 2019. 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

At the end of the first three years of the center-right government of the Cambiemos coalition, its political and economic performance is mixed. Besides positive and promising elements, justifying moderate optimism, there are strong challenges, first in the economy. At present, the political landscape seems to be less personality-driven, populist or clientelistic, and more oriented to institutional rules, pragmatism, bridge-building and professionalism. Popular discontent, particularly among the middle classes, has declined during the first two years of the new government, but seems to increase again with the worsening economic situation in 2018. In the 2017 midterm elections, Argentine voters gave Macri and his Cambiemos (Let's Change) alliance a resounding endorsement. They simultaneously signaled their rejection of the leading Peronists, leaving Argentina's largest political movement bereft of leadership and in disarray. Cambiemos cemented its status as the dominant political organization in the country.

The economy recovered in 2017, but the run on the peso in 2018 has shown that the country's history of financial volatility is far from over. The peso plunged dramatically against the dollar due to investor concern over the government's ability to control inflation and interest rate hikes by the U.S. Federal Reserve, which strengthened the dollar worldwide. The dramatic depreciation (about 50%) made Argentina's dollar debts more expensive for the government. Foreign trade has been affected by lower Chinese demand, Trump's protectionism and Brazil's recession, Argentina's sixth most important trading partner. Domestic consumption declined, poverty rates increased, while interest rates and the public sector deficit remained 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. Vulnerability on the external front, together with tensions in international financial markets, led to the strong depreciation of the peso and consequently to a renewed rise of inflation, drops in international reserves and a large annual hike in the central bank's benchmark rate to 40%. Confronted with the harsher conditions attached to international financing and the results of the severe drought that affected the agricultural sector and exports, the Argentine government entered the second half of 2018 with a \$50.0 billion (later increased to

\$57.5 billion) financial assistance program with the IMF. This program includes a stricter primary fiscal deficit target for 2018 and the following two years. According to IMF projections, GDP in 2019 is expected to fall by 1.7%. The 2019 budget with the primary aim to reduce the deficit in 2019 to zero, finally passed Congress in December.

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, international creditors and investors.

Due to these successes, Menem won re-election in 1995. However, as a consequence of a series of 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 did not 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 the Santa Cruz province. Néstor Kirchner 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. A midterm 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.

The 2015 presidential elections resulted in a surprising political change. For the first time, a non-Peronist center-right coalition under the leadership of Mauricio Macri won the presidency and a non-Peronist governor the Province of Buenos Aires. In the legislative elections, Fernández’s Front for Victory (FPV) lost its absolute majority of seats in the lower house but kept it in the Senate. Macri began his term with a mix of economic shock therapy and gradualism, reversing some of Fernández’s populist policies. But these measures, although necessary, have proved painful. The peso devaluation 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.

To counterbalance the foreseeable social costs and promote economic growth, the government enacted public infrastructure projects, transfers to provinces to fund public works, increased pension benefits and unemployment subsidies, reduced taxes for SMEs affected by the government’s import liberalization policy, and introduced a tax amnesty program, which increased government revenue. On the political front, Macri adopted a remarkably successful pragmatic political style that was driven by dialog with potential allies and veto groups. He also issued a series of decrees, which were democratically problematic. Finally, Macri signed a historic agreement with holdout bondholders that enabled the country to regain access to international capital markets.

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 and increasingly a consumer country. In recent years, there have been increased seizures of marijuana, cocaine and synthetic drugs, increased police operations and arrests, and fewer murders at the country's crime hotspots. Critics of the government say that too much focus on numbers does not enable the government to distinguish between small and large players.

The Macri administration has a clear focus on fighting drug demand as opposed to legalizing personal consumption. A 2015 report on the drug trade by an Argentine NGO revealed that Buenos Aires was home to at least 10 cocaine laboratories run by Peruvian criminal networks. The northern and central regions of the country are most affected by the drug trade. As a result of the dismantling of the main drug-trafficking organizations Funes, Húngaros and Monos, violence in the city of Rosario rose in May 2018, but the murder rates are falling again. Money-laundering activities related to drug money are 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.

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. The constitution recognizes the ethnic and cultural identities of the indigenous peoples and states that Congress shall protect their rights to bilingual education, recognize their communities and the communal ownership of their ancestral land, and enable their participation in the management

Question
Score

Monopoly on the
use of force

8

'06 '20 10



1

State identity

10

'06 '20 10



1

of their natural resources. Many Argentines are wrong to believe that there are no indigenous peoples in their land. Only 3% of citizens believe that the indigenous population suffers the most discrimination in the country. The use of pejorative terms, which locals compare to lazy, ignorant and wild, is part of everyday language in Argentina. These false stereotypes have forced many indigenous people over the years to hide their identity in order to avoid racial discrimination. Many indigenous people, including the Mapuche in Patagonia and the Tobas and Kolas in the north, are largely neglected by the government, suffer disproportionately from disease and extreme poverty, and are still denied land and human rights. Only 11 of Argentina's 23 provinces have a constitution that recognizes the rights of indigenous peoples.

The constitution and the laws guarantee freedom of religion. While the population is largely Catholic, public education is secular and religious minorities practice their faith freely. The government has previously recognized more than 5,300 non-Catholic organizations and granted them tax-exempt status and other benefits. According to the Latinobarómetro 2018 survey, 52% of citizens have confidence in the church. Church and state are separate, and the political process is secularized. However, the Catholic Church is subsidized by the state and has authority over important issues. In July 2017, the Secretariat for Worship of the Ministry of Foreign Affairs submitted a draft law on religious freedom to the lower house of Congress to eliminate the requirement for non-Catholic religious groups to register with the government to receive the same benefits as the Catholic Church. The debate on the bill continues.

In June 2018, the lower house passed a bill to legalize abortion during the first trimester of pregnancy. While Macri and most of his PRO partisans are strictly against abortion, he nevertheless favored a debate and decision on the topic, evoking fierce anger by the Catholic Church, which continued to pressure representatives. In August 2018, the senate rejected the bill.

After a failed attempt to legalize abortion, which had Macri's support, the relationship between the government and the Catholic Church remains complex. Despite the government's attempts to have the Church as an ally, the Church has continued to criticize many of Macri's economic measures – as it did with his predecessor Cristina Fernández de Kirchner – and has warned of increasing inequality, poverty, organized crime, corruption, and the “Integral Sexual Education” bill because it “goes too far.” In December 2018, the Catholic Church announced that it would no longer receive contributions from the government for its activities, a gesture aimed at demonstrating its commitment to austerity in the midst of a currency crisis and double-digit inflation that have hit Pope Francis' homeland hard.

No interference of religious dogmas



1

The state's fundamental infrastructure, including jurisdiction, tax authorities and law enforcement, extends to the entire territory of the country, but operates somewhat deficiently. 96% of the population have access to sanitation, and 99% have access to a water source. State administration and political parties administer public funds, but the distribution followed under the Kirchner government's often particularistic, clientelistic and nontransparent criteria. There were no federal policies promoting development in depressed regions, and there were very few employment opportunities outside the public sector.

Macri promised in his campaign to change this situation and strengthen federalism. One of his first measures was "Plan Belgrano," an ambitious holistic project to develop the 10 poorer provinces in the north with a budget of \$16 billion over 10 years. It aims to boost social development and 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. In 2018, the plan is in its second phase with an ambitious investment program for transport, infrastructure and social services. However, by the end of 2018, the third year of the plan, only a small percentage of the projects had been implemented, leading to serious criticism from the governors in the north and opposition legislators. In February 2017, Macri launched the "Patagonia Project" in the country's south. The project was built on the experience of the "Belgrano Plan" to promote growth and opportunity in the five Patagonian provinces of the vast Argentine south.

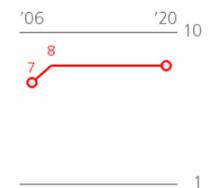
2 | Political Participation

General elections are mostly free and fair and are accepted 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. However, there are some shortcomings in the system, including inconsistent enforcement of electoral laws and campaign finance rules. Some observers have also criticized the country's primary election system, saying that despite primary elections, candidates are in practice selected by party leaders.

The 2015 presidential elections as well as the midterm legislative elections on October 22, 2017, were free and fair for all candidates and parties. Voters elected more than half of the members of the Chamber of Deputies, representing all the provinces and the city of Buenos Aires, and a third of the members of the Senate, representing eight provinces. The results reflected support for Macri and his center-right coalition Cambiemos, which won in 13 of the 23 provinces, including the capital, and after the elections, was the largest coalition in Congress.

Basic administration

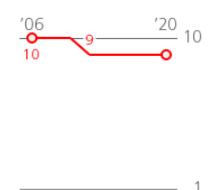
8



1

Free and fair elections

9



1

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: big business, trade unions, 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.

Macri's implementation of a more open and liberal development model improved relations with the industrial sector, but only with export-oriented companies. In the medium-sized industrial sector, however, there is concern about the "wave of imports" and thus conflictual relations between these sectors and the government. In response, the government and Congress presented a "Buy Argentine" law in 2017, providing for preferential treatment of domestic companies in public tenders.

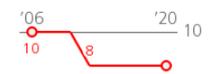
Relations with trade unions have been more complicated due to high inflation and job losses. Initially, Macri made clever use of the divisions within both the Peronists and the General Confederation of Labour (CGT). At the same time, Macri publicly demonstrated his willingness to cooperate with the unions and made several gestures, in particular the repayment of the debts of the obras sociales, the social security system that operates through the unions. After the victory in the midterm elections, the government has shown itself to be stronger and better able to absorb a collision with the unions. However, in view of the growing resistance to his economic policies and the fact that his center-right coalition Cambiemos still lacks a majority in both chambers, Macri was urged to make some concessions (e.g., wage increases) and abandon parts of his ambitious reform program. In response to a government stand-by arrangement (SBA) with the IMF of \$57.1 billion, the CGT organized a general strike in September 2018, the second within a few months.

The financial sector (a fourth potential veto group), together with the agricultural sector, was the real winner of Macri's neoliberal reforms. A government agreement with the holdouts in August 2016 opened up access to the international capital market.

Finally, tensions between the government and the secret services, a possible fifth veto power, in connection with the suspicious death of Prosecutor Alberto Nisman in January 2015, ended with the decision of Prosecutor Ercolini in December 2017, who declared that Nisman's death was murder – not suicide.

Effective power to govern

8



1

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. A particular case is that of Hugo Moyano, General Secretary of the CGT, and several members of his family, including his son Pablo, General Secretary of the Truck Drivers Union, who are being investigated for alleged corruption, money-laundering and tax evasion. In addition to the established forms of interest group articulation, there are a variety of grassroots organizations, NGOs, self-help groups, national and international human rights groups and other forms of articulation and protest that monitor and influence government policy. They are usually free of legal restrictions and political pressure from the state. However, there are exceptions. A report prepared by more than a hundred civil organizations and presented to the president by the Inter-American Commission on Human Rights (IACHR) at its annual conference in Buenos Aires in April 2017 condemned the illegal arrest of human rights activist Milagro Sala and members of the organization Túpac Amaru in Jujuy and Mendoza and noted setbacks in the politics of memory, truth and justice and the increase in police violence.

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. The state does not hinder free access to the internet or censor online content that is widely used in Argentina. The World Bank reported that 70% of citizens used the internet in 2016. Facebook is used by 67%. 27% of households have no internet access. Following the Latinobarómetro 2018, in 2017, 42% of Argentines trusted the media.

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 to strengthen the government's media. Federal judges have blocked this decree arguing that Macri ignored the democratic processes. 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. However, Congress confirmed the changes by law in April 2017, but some provinces and municipalities still lack such laws, undermining freedom of expression.

Macri also reversed his predecessor's pattern of hostility to the private media, held regular press conferences and began consulting civil society representatives on a draft law on access to information. In September 2017, this long-awaited law came into force. The law creates a public information agency, an autonomous body operating under the executive branch, through which citizens can request information from state bodies.

Macri has reduced the role of the state in advertising compared to the Kirchner governments, which have financed a number of pro-government printing and broadcasting companies and refused assignments to critical media. Expenditure cuts and the country's difficult economic situation have affected the financial

sustainability of media companies and led to the closure of some largely leftist outlets, narrowing the scope for opposition voices. Media ownership is now concentrated in large conglomerates such as “La Nación” and the “Clarín” group.

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.” 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.

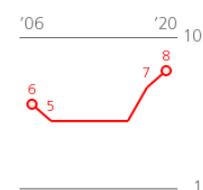
Macri implemented also some of his first reforms by decree. The most controversial of these decrees related to judicial appointments and the reversal of one of the previous government’s landmark pieces of legislation, the 2009 media law. Following strong criticism by the opposition, lawyers and non-governmental organizations (NGOs) of a presidential decree to appoint two Supreme Court justices, the Senate approved Macri’s appointments in June 2016, after considering contributions from the public, NGOs and academic associations. The judges took office in August. However, federal judges blocked Macri’s media law decree. 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. The judiciary has gained more autonomy (see sections 3.2 and 3.3). Compared to the Kirchner governments, there is a clearer tendency toward separation of powers with checks and balances.

Argentina’s judiciary is generally independent and institutionally differentiated in federal and provincial justice systems. However, it remains subject to influence from political authorities, is in parts 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. However, the Macri administration has strengthened anti-corruption legislation through its new corporate criminal liability act, passed by Congress in November 2017, which adapts Argentine regulations to international standards.

In May 2016, the Macri administration launched a reform program entitled “Justice 2020,” which aims to bring about fundamental changes in the judiciary through a series of measures and laws. These include the creation of new specialized courts, the modernization and digitalization of court proceedings, and a national mechanism to prevent torture to fulfill its obligations under the U.N. Optional Protocol to the

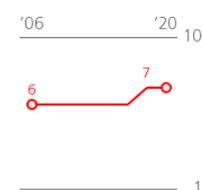
Separation of powers

8



Independent judiciary

7



Convention against Torture and other Cruel, Inhuman or Degrading Treatment or Punishment.

According to the Heritage Foundation's Index of Economic Freedom 2018, the Judicial Effectiveness score of Argentina is 44.5. In the 2018 Latinobarómetro survey, only 24% showed trust in the judiciary. The World Justice Project (WJP) Rule of Law Index 2017 to 2018 ranked Argentina's judicial system 58 out of 113 countries, with an overall score of 0.58 (2016: 0.55), and 12 out of 30 countries in Latin America (2016: 14th), an improvement on previous years.

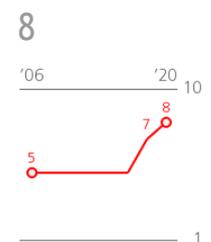
Corruption scandals are widespread in Argentina, and several members of the political class, including former presidents, have been indicted. Macri has made the fight against corruption a priority and has taken steps in this direction with strong public support, including greater autonomy for the Anti-Corruption Office (Oficina Anticorrupción, OA). The OA is active and even the Comptroller General of the Nation is called upon to participate in investigations that undermine the credibility of the executive (e.g., the debt agreement of the postal company owned by the Macri Group between 1997 and 2003).

Among the most spectacular cases of alleged corruption are the cases of former President Fernández and her children, former Vice-President Amado Boudou, former Foreign Minister Timerman and José López, deputy minister of public works under the two Kirchner governments. Fernández faces a total of six corruption cases and has two arrest warrants, which cannot be executed as she is an acting senator and is exempt from prosecution. Her case remains highly political as Fernández is considering running for president again in the October 2019 elections. Vice-President Boudou was sentenced to five years and 10 months in prison in August 2018. López was arrested after trying to conceal \$8.9 million in a convent. Notwithstanding these advances, Macri himself incurred suspicion because he was the only Latin American president to appear in the "Panama Papers" in April 2016, but on closer inspection, the revelations did not appear very damaging for him.

During 2018, the case known as the "Cuadernos de las coimas" (record of delivery of bribes by businessmen made by the driver of a high official of the Ministry of Public Works of the Nation) helped facilitate a qualitative leap being taken in the fight against corruption. The verification of facts registered in that notebook by the judiciary and the sanction of the law of repentance allowed the judiciary to charge and prosecute numerous officials and businessmen, many of whom are in prison.

Overall, compared to previous years, the situation has improved. The prosecution of abuses of public office now follow the rule of law and less the considerations of political opportunity. There are signs that the judiciary is beginning to become more effective and less politicized. This changing climate also serves as an incentive to reactivate "sleeping" cases that have not been handled yet.

Prosecution of office abuse



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, inefficient and, in the case of police, poorly paid, 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. 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 violent crime as well as the increased perception that crime is a problem 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 de facto very limited for low-income and other socially marginalized people. The indigenous population of Argentina, which accounts for about 2.4% of the population, is largely neglected by the government and suffers disproportionately from extreme poverty and disease. Only 11 of Argentina's 23 provinces have a constitution that recognizes the rights of indigenous peoples. Discrimination against the indigenous population remains a problem. Anti-Semitism and xenophobia against immigrants from the Andean countries and Asia, and more recently against refugees from Venezuela in a few cases, are on the rise.

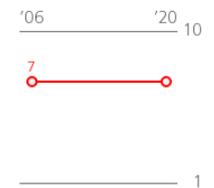
4 | Stability of Democratic Institutions

Overall, the performance of democratic institutions and their mutual respect have improved. The political system is characterized by a strong presidentialism with a significant concentration of executive power. The system of formal and informal incentives 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.

With the defeat of the Peronist candidate Scioli in the 2015 presidential election, the traditional super-presidentialism did not disappear. However, it was mitigated thanks to Macri's more moderate style of government. The number of decrees has decreased significantly compared to previous governments. Macris's new political style and strategic behavior enabled him to reach some ad hoc agreements in the first two years

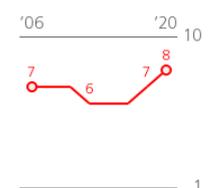
Civil rights

7



Performance of democratic institutions

8



of his tenure with the support of moderate Peronists led by Sergio Massa. However, this basis of cooperation with moderate sections of the Peronists began to erode in the 2017 midterm election and has since accelerated with the prospect of the presidential election in 2019.

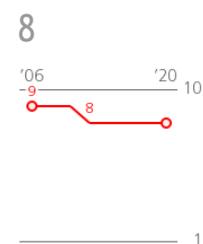
More successful and sustainable beyond the midterm elections were Macri's efforts to work with the governors, a traditional strong veto group in Argentina. With only five of the 23 provinces governed by the Cambiemos Coalition (Let's Change), the key for Macri to maintain stability and implement his reforms is to achieve political consensus across the country. Strengthened by the midterm elections, Macri sealed a tax agreement with almost all Argentine provinces in November 2017. The two regional initiatives of the government "Plan Belgrano" (2016) and the "Proyecto Patagonia" (2017) further consolidated relations with the provinces, helping to fulfill the constitutional promise of federalism and develop the regional economy.

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 largely clean, 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. There is still sometimes a gap between formal and informal rules, such as between the logic of institutions and their application in the daily work of politicians and social actors.

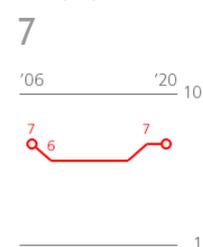
5 | Political and Social Integration

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. Since 2013, we observe a re-alignment in the party system that culminated in the October 2015 elections. Sluggish economic growth and undiminished inflation created a demand for change, alienated the middle class and deepened the territorial divisions between the central agricultural region and the peripheral provinces. Against this backdrop, the combination of a unified opposition and fragmented Peronism led to Macri's victory. Cambiemos, a coalition of the Civic Coalition (CC), Republican Proposal (PRO) under Macri and the Radical Civic Union (UCR), was the first non-Peronist center-right coalition to win the presidency. On the other hand, the Peronist opposition has

Commitment to democratic institutions



Party system

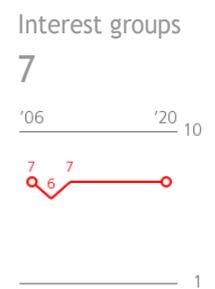


been split into three lines since its losses in the 2017 midterm elections: Firstly, Fernández left the PJ and founded a new party, the Frente de Unidad Ciudadana; secondly, official Peronism with Florencio Randazzo, the former interior and transport minister and unsuccessful competitor of Scioli in the 2015 presidential elections; and thirdly, since May 2017, long-time PJ dissident Sergio Massa, who forged his own coalition outside the Peronist movement in the hope of contesting the presidential elections in October 2019.

The existing network of associations reflects most social interests and is partly able to mediate between society and the political system. However, it is relatively fragmented and dominated by a few strong interest groups, notably business associations and trade unions, which leads to a latent risk of pooling conflict and little cooperation. A variety of interest groups focus on social, environmental, human rights and gender issues.

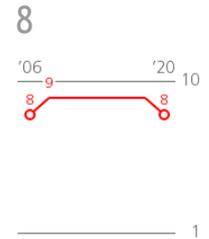
Organized labor continues to be dominated by Peronist unions, although the CGT, as the most prominent actor, has repeatedly been plagued by internal struggles. Argentine trade unions are historically very combative and often successful in their demands, though they (or because they) function more like businesses or even mafias. Since Macri's victory, a series of workers protests and strikes, including two general strikes, have taken place. The government nevertheless continued its dialog with various sectors of the CGT with the explicit aim of creating or exploiting existing divisions within the trade union movement. Taking into account the pragmatism of the majority of union leaders, Macri sent them the message not to limit their influence and contain business demands to make it easier to dismiss workers if unions support his moderate reforms. However, this strategy ended in January 2018 with an unprecedented increase in arrests of trade union leaders accused of corruption and a debate in Congress on Macri's most important labor reform project, which aimed to attract foreign investors, improve Argentina's competitiveness and reduce trade union power and influence.

The interests of companies remain strong and well organized through their main associations. With the Macri government's first reforms, relations with employers began to improve. The dramatic devaluation of the peso was a gift to the export-oriented sector, especially the agricultural sector, the most dynamic sector. Relations with the Argentine Industrial Union (UIA) have improved as both sides see them as allies. Nevertheless, UIA President Acevedo criticized the dramatic devaluation in 2018, the "financial speculation," the reintroduction of export taxes (retenciones) and called for a "competitive, stable and predictable" exchange rate. On the other hand, the sector hardest hit by exchange rate volatility, the dramatic weakness of the peso and the rise in import prices is local industry, especially small and medium-sized enterprises. The Macri administration's relations with this sector improved when a new entrepreneurship law was passed in May 2018 aimed at ending the excessive requirements that made it difficult to set up companies in Argentina in the past.



Approval levels for democratic norms and procedures continue to be fairly high, but declined compared to previous years. According to Latinobarómetro 2018, 59% of Argentine respondents stated that democracy is preferable to any other kind of government (2010: 83%; 2015: 70%; 2017: 68%). At the same time, 14% said that an authoritarian regime may be preferred under certain circumstances. Only 9% stated that Argentina is not a democracy. However, only 27% are satisfied with the functioning of democracy, and 54% are convinced that Argentine democracy has serious problems.

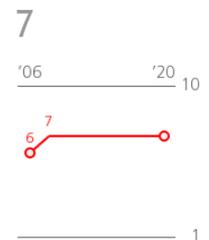
Approval of democracy



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 Macri's reform program, first of all economic issues, corruption and increasing insecurity. However, public distrust of democratic institutions and public perceptions that democratic institutions are not representative and ineffective have not disappeared. Only 26% felt represented by parliament, and, more dramatically, only 14% said they had confidence in political parties. In general, there is a wide gap between the general acceptance of democratic institutions and judgments about their functioning. Overall, 82% (2016: 71.4%) of respondents stated that the country is governed by powerful groups driven by strong self-interests, while only 15% believe the country is governed with the public good more generally in mind.

Though there is a robust network of civil society organizations such as NGOs and associations across the country, the sense of solidarity and trust among the population and confidence in the institutions of social and political representation have declined since 2012. Interpersonal confidence is chronically low. 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 2018, only 18% (2016:22.4%) of respondents stated that one can trust other persons. Rule-flouting individualism and group loyalties 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.

Social capital



The perception of the political process as a zero-sum-game where the “winner takes all” is widely internalized in parts of the political and economic élite. One example is Fernández's slogan “Vamos por todo.” Compromises are considered a defeat. Social polarization increased in recent years. It is too early to evaluate if Macri's more cooperative and dialog-oriented government style has reduced polarization in Argentine society. The renewed economic and social deterioration in 2018 speaks in favor of skepticism.

II. Economic Transformation

6 | Level of Socioeconomic Development

Argentina is still considered a country with very high human development by UNDP, but relative poverty and inequality (Gini index of 42.4 in 2016) are persistent challenges. Argentina ranks 47th in the Human Development Index 2017 with a score of 0.825, the second highest in Latin America, slightly behind Chile (ranked 44) and similar to countries like Croatia, Oman and Russia. Absolute poverty is rather low with 2.4% of the population living on less than \$3.20 a day (2016), second in the region behind Uruguay (0.5%). According to the 2018 poverty index of the Argentina Catholic University, poverty (i.e. household income is insufficient to acquire the total basic basket of goods and services) increased during the review period reaching 32%, the worst rates of last ten years. Indigence (household income insufficient to acquire the basic food basket) rose from 4.8% to 4.9%. The 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.

Argentina ranked 18 out of 134 BTI countries covered in the HDI 2018 and 47th overall with a value of 0.825 (data for 2017), indicating a “very high human development.” The overall loss in HDI 2018 due to inequality was 14.3%, the lowest in the region along with Uruguay. Exclusion based on gender, religion and ethnicity play a minor role compared to most other Latin American countries. The Gender Inequality Index ranks Argentina 49 out of 120 BTI countries surveyed for 2017, and 6th in the region.

| Economic indicators | | 2015 | 2016 | 2017 | 2018 |
|---------------------|------|----------|----------|----------|-----------------|
| GDP | \$ M | 594749.3 | 557531.4 | 642695.9 | 518475.1 |
| GDP growth | % | 2.7 | -2.1 | 2.7 | -2.5 |
| Inflation (CPI) | % | - | - | - | - |
| Unemployment | % | 7.6 | 8.0 | 8.3 | 9.5 |

Question
Score

Socioeconomic
barriers

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| Economic indicators | | 2015 | 2016 | 2017 | 2018 |
|---------------------------|----------|----------|----------|----------|-----------------|
| Foreign direct investment | % of GDP | 2.0 | 0.6 | 1.8 | 2.3 |
| Export growth | % | -2.8 | 5.3 | 1.7 | 0.0 |
| Import growth | % | 4.7 | 5.8 | 15.4 | -5.1 |
| Current account balance | \$ M | -17622.0 | -15104.8 | -31597.9 | -27478.8 |
| Public debt | % of GDP | 52.6 | 53.1 | 57.1 | 86.1 |
| External debt | \$ M | 176575.0 | 188757.6 | 236470.5 | 280515.7 |
| Total debt service | \$ M | 17902.3 | 25904.9 | 39922.9 | 37221.0 |
| Net lending/borrowing | % of GDP | -3.4 | -5.3 | -5.5 | - |
| Tax revenue | % of GDP | 12.3 | 12.1 | 11.0 | - |
| Government consumption | % of GDP | 18.1 | 17.7 | 17.7 | 16.2 |
| Public education spending | % of GDP | 5.8 | 5.6 | 5.5 | - |
| Public health spending | % of GDP | 6.8 | 5.6 | - | - |
| R&D expenditure | % of GDP | 0.6 | 0.5 | - | - |
| Military expenditure | % of GDP | 0.9 | 0.8 | 0.9 | 0.9 |

Sources (as of December 2019): 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. A consistent market order is persistently undermined by ongoing power struggles between political, economic and social forces. This lack of agreed stable rules is perhaps the major problem of the Argentine universe overall.

In order to reverse the previous government's policies (anti-competitive regulation, barriers to entry, weak antitrust framework, and significant and unpredictable government involvement in private industry), the Macri government suspended most of these restrictions, applying a gradualist reform approach to improve the business climate. With the Agreement on Productivity and Jobs, the Macri government tried to establish a broad consensus on measures to enhance economic development in key

Market organization

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aspects (capital markets, cost of production, tax burden, labor legislation, innovation, competition, red tape and infrastructure).

The resulting legal framework is at best a hybrid. Administered pricing still plays some role, the currency is partially convertible, there is substantial freedom to launch and withdraw investments, but there remains significant formal entry or exit barriers. Starting a business has become somewhat easier during the Macri government. According to Doing Business 2019, the country ranks 128 out of 190 economies in the Starting Business index, with 11 procedures, 11 days and a cost of 5.3% of income per capita, a significant improvement compared to 2017 (Doing Business 2018) but still behind neighboring Chile at rank 72 (7/6/5.7%). In order to contain the persistent high inflation and mitigate its effects on the lower income households, the Macri government continued the program of price controls on basic household products, called Precios Cuidados, which was first launched in 2014 by the Kirchner government. Products covered are fruits and vegetables, dairy products, fresh bread and meat, among others. In fear of imminent looting, the program was extended in September 2018 and again in January 2019 to now 566 retail items and 221 for wholesalers. Contrary to his predecessor, Macri lifted most capital controls and has financed the current and trade deficits with debt. In April 2018, the government mandated a capital-gains tax on foreigners to ease fiscal pressure.

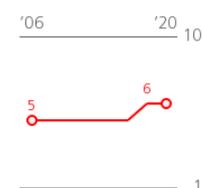
Despite diminishing since the early 2000s, the informal sector remains large, representing about 48% of employment, according to ILO data for 2017.

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. Until 2018, the anti-monopoly policies have been executed within a weak institutional framework, inconsistently enforced and occasionally abused for political gain. In some cases, crony capitalism has favored the creation of new monopolies. The enforcement of competition rules has had a strong political influence, as decisions have been taken by the minister of commerce, who is appointed and recalled by the president at his sole discretion. According to the Global Competitiveness Report 2017/18, the effectiveness of Argentina's anti-monopoly policy ranked 121 out of 137 countries, a moderate improvement compared to 2016/17, when it ranked 126 out of 138 (and 137 out of 144 in 2014/15).

In May 2018, Macri enacted a new competition law that entails a major overhaul of the competition law regime, aiming to bring Argentina in line with the international best practices and to modernize the out-of-date and archaic competition law regime. According to Competition Policy International (CPI), there have been five major modifications: (1) the adoption of an ex-ante or premerger control regime with higher notification thresholds and shorter review periods; (2) the adoption of a presumption of illegality for hard-core cartels and an increase in fines; (3) the introduction of the

Competition policy

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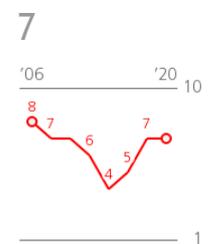


country's first ever national leniency program; (4) certain modifications to foster private damages actions in the country, in particular follow-on claims; and (5) certain institutional modifications, notably, the creation of a new, more independent competition authority and the creation of a new specialized court to review appeals on competition law matters. The New Competition Law removes all decision-making powers (and hopefully political influence) from the secretary of trade and provides for the creation of a new competition authority, the National Competition Authority, which shall encompass the Defense of Competition Tribunal, the Anti-competitive Conducts Secretariat and the Economic Concentrations Secretariat.

Macri's presidential victory led to a dramatic change in Argentina's trade policy. Even before scrapping the currency controls, the Macri government cut the agricultural export tariffs that 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. At the same time, the most extreme and arbitrary import restrictions were abolished. According to the U.N. Commission for Latin America and the Caribbean (CEPAL), this measure led to a deterioration in the commodity balance in 2017 as imports (19.7%) increased, exceeding exports (0.9%). The measure 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. However, in response to the contraction of the Argentine economy and the sliding currency in 2018, Macri announced new export taxes and drastic spending cuts on September 2 in an emergency program to balance next year's budget as his center-right government aims to persuade the IMF to accelerate a \$50 billion credit program. Almost all new revenues are financed with an export tax of four pesos per dollar on exports of primary products, including agricultural products, and three pesos per dollar on other exports. The government expects taxes to increase revenues by 2.3% of GDP as the agricultural sector is expected to experience a strong recovery after a drought that weighed on this year's corn and soybean crops.

The effects of trade liberalization are contradictory and an evaluation is difficult. In general, however, 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 2018 Index of Economic Freedom, Argentina's average applied tariff rate was 7.4% (2016-2017: 6.6%). The simple average of the MFN applied tariff was 13.7% in 2017.

Liberalization of foreign trade



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).

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.

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, and a notable regulatory change by the central bank in 2017 lifting the ban on the reimbursement of current account deposits. The policy of high interest rates in force since 2017 led to a nominal increase of 76% in holdings of central bank bills compared with the previous year. In December 2017, non-bank holdings of these securities amounted to a peso equivalent of 71% of international reserves. This became one of the destabilizing factors in the foreign exchange market between April and June 2018.

Commercial bank interest rates generally followed the monetary policy interest rate trend. In general, despite the increased independence of the central bank, the financial sector remains exposed to government influence. Twelve state-owned banks account for over 40% of the balance sheet, and the presence of foreign banks has declined. According to the World Bank, non-performing loans were rather low (2017: 1.8%) and the capital-to-assets ratio was at 12.3% in 2017.

8 | Monetary and fiscal stability

Although the Argentine central bank (BCRA) was nominally independent, it came under increasing pressure during the Kirchner era. After the change of government in 2015, the central bank became de facto more independent, but the planned legislative change for operational independence is still in preparation.

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 also involves consumers. 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. While the previously announced inflation targets of 20% to 25% were confirmed in September 2016, the inflation rate at the end of this year was between 35% and 40%, falling to 25.5% in 2017. However, vulnerability on the external front and tensions on international financial markets led to a sharp depreciation of the peso in the second quarter of 2018, resulting in rapid inflation up to 45.9% in October 2018 according to INDEC.

Banking system

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Monetary stability

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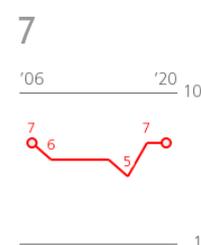
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Finally, after two runs on the peso in the first half of 2018, which halved the value of the peso against the dollar, acting on advice from the IMF, the central bank introduced a crawling-peg exchange rate regime in October in an attempt to restore confidence in the currency, tame rapid inflation and pull the economy out of an expected 2.5% recession this year. At the same time, the government is stepping up its efforts to eliminate the budget deficit by 2019 and stopped borrowing from the central bank. The peso was allowed to float freely within an exchange rate band or no-intervention zone of ARS 34-ARS 44 per dollar, but underwent daily adjustments. This ended a practice of spending billions of dollars to maintain the peso through the disgraced floating system, an IMF condition for a rescue credit line that was increased to \$57 billion in September, from the \$50 billion originally agreed in June – the largest ever granted by the IMF – to finance the budget.

Having inherited a desolate macroeconomic situation with huge fiscal deficits, a key Macri government priority was to attack the unsustainable fiscal situation and establish a more solid, stable and transparent fiscal system. Macri inherited a particularly high level of primary public expenditure (including provinces and municipalities), which had reached 42.2% of GDP in 2015, no less than 17 percentage points higher than prior to the deep 2001 to 2002 crisis. However, recent government policies have been only moderately successful in preserving macroeconomic stability. A 2017 law on fiscal responsibility established that current primary expenditure cannot be increased above inflation, or above primary expenditures in the case of provinces with high deficits or indebtedness. The draft budget for 2019 included streamlining public administration by downsizing, merging or eliminating a dozen cabinet ministries, slashing all non-essential spending, and restricting spending on public work projects to those already begun – all this with the aim of enabling the government to balance the budget, reducing the fiscal deficit to zero in 2019.

After the 2.8% contraction in GDP per capita recorded in 2016, the economy grew 1.9% in 2017 (WDI data), but in 2018 is expected to have fallen by 3.9% (CEPAL data). The public sector deficit remains high, reaching 5.8% of GDP in 2016 and 2017, and 5.6% in 2018 (CEPAL global fiscal balance data). Foreign trade was affected by an adverse international environment, resulting in a steep decline in the current account balance (from a deficit of \$14.7 billion in 2016 to \$30.8 billion in 2017; CEPAL reports a deficit of \$25.2 billion for 2018). Fiscal policy was contractionary in 2017. As a result, the primary deficit fell in real terms from 4.2% of GDP in 2016 to 3.8%. Gross public debt remained moderate to high with 54.2% of GDP in 2016 and 53.4% in 2017; however, according to CEPAL the central government's public debt rose significantly from 53.3% in 2016 and 57.1% in 2017 to 77.4% of GDP in 2018. Expenditures on public debt interest payments increased significantly in 2017 (71.3%), resulting in a financial deficit of 6% of GDP (2016: 5.8%).

Fiscal stability



9 | Private Property

Property rights and the regulation of property acquisition, benefits, use and sale 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.

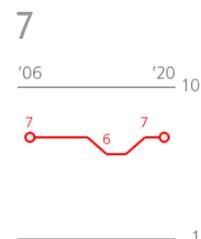
A complex political and economic situation has created a system where property rights are shrouded in uncertainty, be it through corruption, an inconsistency of rulings or the constant threat of emergency decrees that ignores the rule of law. In such a country, the investment capital, domestic investment and demand will be restricted, and the long-run potential of growth rate of the economy will be reduced. However, thanks to the implementation of broad reforms by the Macri government, there are signs of better protection of property rights and the renunciation of state intervention.

Argentina is a member of the WTO and the World Intellectual Property Organization (WIPO). However, patent protection remains an ongoing problem. In the International Property Rights Index 2018, the country ranks 79 out of 125 countries (2016: 105 out of 128), regional rank 11 of 20, scoring 5.02 (2016: 4.1.) on a scale from zero to 10, sign of progress under the Macri administration.

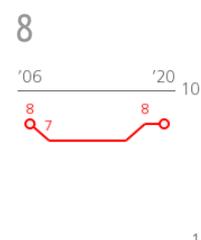
Private companies are viewed institutionally as important engines of economic production, but are at times insufficiently protected by existing legal safeguards due to lengthy judicial procedures. Doing Business 2019 ranks Argentina 107 out of 190 economies with respect to enforcing contracts, mainly because it takes 995 days on average. 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.

Macri removed many of the obstacles introduced under the Kirchner governments and returned to the previous private sector friendly framework, albeit adopting a gradual approach. In April 2017, Macri signed a law to boost entrepreneurship in Argentina. The new legislation replaced the old application, approval and financing procedures for ventures that could take a year, created a 24-hour online registration process for startups and introduced loans for new ventures and long-term, low interest loans for business seeking to expand. 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. However, the reduction of import tariffs, on the other hand, also had negative effects for uncompetitive SMEs.

Property rights



Private enterprise



Latest data show industrial output plummeted by 11.5% on year-earlier level in September 2018 in spite of the new legislation.

The Global Competitiveness Report 2018 ranks Argentina 77 out of 140 countries (up from 113rd in 2017/18 and 130th in 2016/17) concerning institutions, among them shareholder governance (10) and improved intellectual property protection (95).

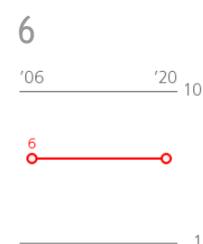
10 | Welfare Regime

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. 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.

Given that the elderly are an increasing percentage of the population in Argentina, the biggest challenge for the Macri government is financing pensions. Pensions are run by the state, which pays more money than it receives. According to serious calculations, there is a deficit of nearly 20% per year. In order to fix the fiscal accounts, public spending has been constantly reduced despite public protests against the cuts. But even with these measures, things have not radically improved. At the end of 2017, Congress adopted a social security reform proposed by the government as an integral part of their wider economic reforms. Central aims were changes in the calculation of retirement and pension payment adjustments; elimination of privileged retirement benefits awarded to certain officers of the executive and the judiciary; and increase of the retirement age. The passed reform bill changed the formula for social benefits, establishing biannual adjustments on the basis of changes in wages and average income as recorded in the National Social Security Administration (ANSES). The reform also extended the retirement age to 70 years, on an optional basis (previously, it was 60 for women and 65 for men).

The September 2018 agreement with the IMF sets a floor for social protection spending and allows the option of expanding social spending by up to 0.2% of GDP over the 36-month course of the program, which could be channeled through the universal child allowance, the universal pregnancy allowance and other family allowances. According to the minister of economy, the budget draft 2019, debated during December in Congress, has clear priorities to support the most vulnerable sectors of society. He said that social security spending would increase by 35% and spending on food programs by 60% in 2019. On 18 December 2018, the supreme court ruled against the national security administration (ANSES) over state pension payments calculation. The ruling will benefit between 100,000 and 150,000 pensioners who pursued legal action.

Social safety nets



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.

Argentina began to codify gender quotas in 1991 and has experienced consistent success at electing a larger proportion of women into the legislature than most other Latin American countries. As of the most recent elections in 2015, Argentine women hold a combined 39.5% of the seats in the upper and lower houses of the parliament. A new economic plan of the Macri government, published in June 2018, included a paragraph about gender equity, promising to reduce disincentives for women, push projects for equal wages and a more balanced system of maternity and paternity, and a demand to entrepreneurs to publish yearly figures about the gender balance in its directorates. The plan also promised initiatives for fight against domestic violence and support networks for victims of domestic violence. However, Macri opposed the legalization of abortion and stricter laws against femicide.

In the Global Gender Gap Report 2018, Argentina ranks 36th out of 149 (2016/17:33 out of 144) with a score of 0.733 (2016/17:0.735). The country ranks 114th (2016/17:101) for economic participation and opportunity, 63rd (2016/17:54) for educational attainment, first (2016/17: the same) for health and survival, and 23rd (2016/17: 22) for political empowerment. 64% of the Argentine labor force age between 25 and 64 has at least some secondary education (male: 62.8%; female: 64.8%). In 2010 Argentina was the first Latin American country to legalize same-sex-marriage.

11 | Economic Performance

Economic performance has declined markedly since 2012, a consequence of a deteriorated international context and mistakes in economic policy. The macroeconomic framework experienced a significant change with Macri and the Cambiemos coalition government, but the balance after three years is mixed.

GDP per capita is almost stagnating since 2013, with \$20,787 (PPP) in 2017. After the 2.8% contraction in GDP per capita recorded in 2016, the Argentine economy grew 1.9% in 2017 (WDI data), driven by private consumption, investment, public consumption and exports. But in 2018, it is expected to have fallen by 3.9% (CEPAL data). According to CEPAL, the inflation rate came down from 38.5% in 2016, mainly due the exchange rate and tariff adjustments (gas and electricity), to 25.0% in 2017, but rose again to 45.5% in 2018. Unemployment remained almost unchanged (8.7% in 2016 and 8.5% in 2017). Domestic consumption declined, poverty rates increased, while interest rates and the public sector deficit are high, the latter reaching 5.8% of GDP in 2016 and 2017, and 5.6% in 2018 (CEPAL global fiscal balance data).

Equal opportunity

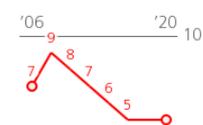
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Output strength

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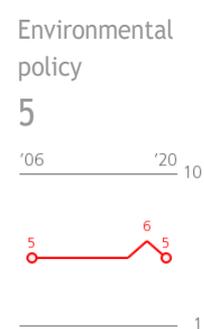
Foreign trade was affected by lower Chinese demand, Trump’s protectionism and the recession in Brazil, Argentina’s sixth most important trading partner, resulting in a steep decline in the current account balance (from a deficit of \$14.7 billion in 2016 to \$30.8 billion in 2017; CEPAL reports a deficit of \$25.2 billion for 2018). Many SMEs have been or are on the verge of bankruptcy due to the abolition of import restrictions and a lack of competitiveness. Vulnerability on the external front, together with tensions in international financial markets, led to a depreciation of the peso of about 50% in the second quarter of 2018, and consequently to a renewed rise of inflation, drops in international reserves and a large annual hike in the central bank’s benchmark rate to 40%.

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. However, the government’s first decisions contradicted its claim to “restore the institutions” at the environmental policy level, as it has shown favoritism toward large scale farmers and grain traders, a sector that employs farming practices involving the use of large quantities of highly polluting agrochemicals, through a substantial devaluation of 43% and the elimination of the export tax (in the case of soybeans a reduction from 35% to 30%). Afterwards, Macri benefited the mining sector through a decree in February 2016, enacting the elimination of all export taxes. The appointments of the heads of MAyDS, the Ministry of Agrarian Affairs of Buenos Aires and of the Ministry of Agro-Industry were also paradigmatic and emphasized Macri’s big business-friendly environmental policy.

Demonstrating a new engagement on environment affairs, the government published in October 2018 a third “State of the Environment Report,” the second since Macri took office. According to the environment policy secretary, the text should be a starting point for “delineating more-solid public policies regarding management of the environment.” Besides looking at aspects of the natural environment, such as oil, water, the atmosphere and biodiversity, the study focused on human activity that



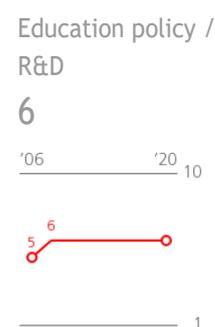
affects the environment, including mining, agriculture, manufacturing, energy and waste disposal.

Beyond good intentions, the government acknowledges that much more work remains to be done. A 2017 demonstration in Cordoba against government plans for laxer zoning and land-use management, which would have favored deforestation, successfully blocked the initiative. Expenditure on environmental policy in Argentina is increasing but remains low.

Education policy ensures a nationwide system of sound education and training, but the research and technology sector is only partially advanced. 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% dropout rate for secondary schools. In July 2016, the government presented its 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. Education spending has since increased significantly, but spending levels still fall short of that goal and 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.

In the U.N. Education Index, Argentina is ranked 13 out of 133 BTI countries considered, with a score of 0.816 – first in the region. It has the highest net enrollment ratio in secondary education (88.2%) in Latin America, but its education system produces far fewer university graduates as a percentage of the population than the systems in neighboring Brazil or Chile. The dropout rate at the secondary and (but fewer) university level is high. Recent guidelines on compulsory education aim to decrease the dropout rates in secondary school and improve promotion and graduation rates throughout the country. Argentine students also perform poorly in comparative tests, such as the OECD Pisa study. Access to early childhood education and childcare is less widespread among two- to three-year-olds than in neighboring Brazil and Colombia. Fewer than one in five young adults have a tertiary degree.

There are notable regional disparities in Argentine’s education system between rural provinces and urban centers. Regional disparities exist in terms of ease access to education, quality of education, budgets, infrastructure or teachers’ salaries. In recent years, federal authorities have taken several steps to harmonize the different education systems under the jurisdiction of the provincial governments, for instance the standardization of academic qualifications and curricular streams. However, despite recent reform attempts to increase standardization, Argentina presently has one of the most decentralized education systems in the region. The structures necessary for efficient school-system administration have been developed only in a few provinces, and the widening quality gap between rich and poor provinces is



disturbing. Some 70% of scientific personnel are concentrated in only three provinces; the federal capital, Córdoba and Santa Fé.

The latest available data on public R&D expenditure (2014: 0.6% of GDP) shows that engagement in R&D is still very low and an insufficient base for higher competitiveness. 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. According to the Global Competitiveness Index 2017/18, the quality of the education system ranks 102 out of 137, the quality of mathematics and science education ranks 108 and the internet access in schools ranks 80 (comparatively low).

Governance

I. Level of Difficulty

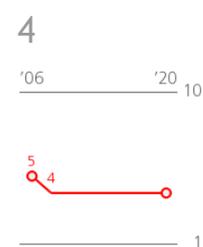
Structural constraints on governance, which were moderate during the “golden years” of growth (2003-2011), have slightly increased since 2012. The main structural constraints stem from Argentina’s weak position in the global economy.

The subregional integration regime, Mercosur, has suffered due to the recession in Brazil, Argentina’s most important trading partner, and is blocked politically by conflict about the membership of Venezuela. The U.S. dollar and the U.S. economy have grown stronger, attracting capital until now invested in emerging economies, a trend fortified with the victory of Trump and his preference for protectionism, which collides with Macri’s advocacy for openness, free trade, and regional and transnational integration. The growth rates of China’s economy decreased and as result also its demand for soybeans, a major export product for Argentina. The European economy, an important export market for Argentina’s agrarian products, is only slowly recovering from recession and confronted with internal trouble (Brexit, recession in Italy, populism). Macri’s debt arrangement with the major remaining holdouts opened the doors to international financing, but the strong devaluation in the second quarter of 2018 led to harsher conditions of international financing the country depends upon.

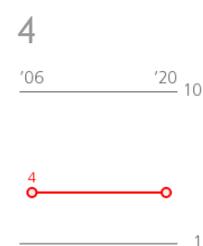
Most domestic difficulties (e.g., the fiscal deficit, high inflation rates) are not really structural and could be managed by capable political leadership. However, poverty and the informal economy in urban areas are still considerable, and the education sector has been underfinanced and lacked coherence for years.

Argentina has a fairly strong tradition of civil society, but interpersonal trust and social capital are rather low. NGOs are generally robust and play a more substantial role in society than in politics. Strong trade unions and worker’s associations have played a crucial part for civil society’s vibrancy, along with human rights, feminist, indigenous and rural movements, among others. 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

Structural constraints



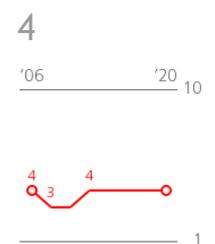
Civil society traditions



diminished. Nowadays, civil society groups are very fragmented and their objectives somewhat diffuse. 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. Social capital tends to be weak, and interpersonal confidence is chronically low. Fundamental social norms are poorly developed and Argentina has been described as "an anomic society."

There are no severe ethnic or religious cleavages in Argentina. Division along social or ideological divides was moderate in the post-crisis years. 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. Because of the fragmentation of the Peronist movement, more visible since its electoral defeat in 2015, the political landscape is less polarized and divided in ideological camps as during the Kirchner years, and voters' perception and political behavior is primarily oriented on the economic output of the government. Growing protests are mainly a consequence of economic pressure caused by inflation, unemployment, public insecurity and violence. Street blockades have also increased. Trade unions, civil society groups, and even small business organizations renewed their mobilizations in rejection of the public transport and energy tariff increases, the government's general economic policy and its deal with the IMF. A significant threat for the Macri government is social protests allied with trade union strikes. Heightened social conflict has been increasingly met by police repression in both urban and rural settings. At the same time, the judiciary has stepped up the criminalization of demonstrators and people recording protests, and of labor and social organizations generally.

Conflict intensity



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 a country largely isolated. In political terms, a main problem continued to be corruption at all levels. These deficits established the starting point for Macri's own political priorities, which correspond to democracy and market economy principles. In the political realm, Macri has taken decisive anti-corruption steps, and established new institutional and legal arrangements to prevent corruption. The economic priorities were clearly defined at the beginning of the Cambiemos coalition and implemented with a mix of shock therapy (e.g., floating exchange rate, 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).

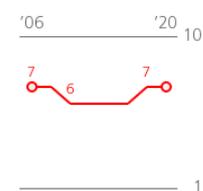
Macri maintained his strategic priorities up to now and was sufficiently flexible to adapt policy items and the composition of his cabinet when circumstances demanded change. He was also capable of forming ad hoc partnerships for the implementation of policy priorities; gaining and organizing expertise in the economic sector; and building bridges with moderate opposition members in Congress, the provinces and civil society. The results of the midterm elections in October 2017 have strengthened the Cambiemos coalition.

In June 2018, the government published a new economic plan, directed as memorandum to IMF, which confirmed the gradualist approach with inflation reduction (no more than 27%), a flexible dollar and growth of 1.4%. However, this plan was rather a simple collection of economic measures and promises than a coherent strategy. Notwithstanding, especially since the agreement with the IMF, the macroeconomic stability objectives are clear and the discipline to carry them out seems strong, thereby also using the advice of IMF to envisage institutional reforms such as concerning the central bank.

Question
Score

Prioritization

7



1

The Macri government has had increasing difficulties implementing some of its economic policies, while external economic conditions were rather unfavorable for the success of economic reforms. Instead of loyal party members, Macri's cabinet was composed of technocrats, which were solidly prepared to face the inherited problems. Notwithstanding, coordination problems between different ministries and government sections make the implementation of coherent policies difficult. A recent constructive move was to merge the former ministries of the treasury and finance into a single Ministry of Finance and appointed the minister of finance as the economic coordinator of the cabinet. An additional implementation obstacle was that Congress initially was dominated by the opposition and forced the government to move carefully and search for allies. The case-to-case cooperation of the moderate PJ faction under Sergio Massa with the government, relatively successful until the campaign for 2017 midterm elections, finished after these elections and the beginning of the election campaign for 2019.

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 in the first two years relatively successfully. 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, and finally a political agreement on the 2019 budget. 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. The government's negotiations with Argentina's powerful labor leaders on wage restrictions in the "paritarias," the annual wage negotiations, were also only partly successful. As consequence of repeated cuts of utility subsidies and drastic tariff increases, a strong depreciation of the peso in the second quarter of 2018, the repeated lag between inflation rates and negotiated wage agreements, the \$50 billion deal with the IMF, which included a stricter primary fiscal deficit target for 2018 and the following two years, and, finally, the pension and labor reform, the opposition of the powerful trade unions intensified and impeded more and more arrangements between government and organized labor.

The Macri government's record on policy learning is rather mixed. Policy change results partly from policy learning, which includes change in the basic beliefs guiding policy formulation, but partly also from pure necessity of policy change.

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

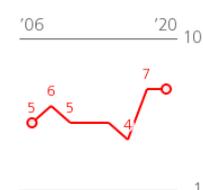
Implementation

7



Policy learning

7



powers with compensations, first of all trade unions, moderate Peronist opposition members and provincial governors. This policy style, which is perhaps a more basic policy learning concerning Argentina's usual zero-sum games in politics, helped to establish successful arrangements such as the pension reform bill and the 2019 budget law. However, this strategy of dialog and bridge-building has limits, above all in face of the upcoming 2019 elections.

Compared to its start in 2016, the government has corrected several policies or strategies, mainly related to Argentina's grave economic and social situation, which historically has always been prone to end in social eruptions, and even to sweep away governments. Indeed, several of these corrections can be attributed to policy learning. One example is the recognition that a simple change of government with a renowned "neoliberal" at the head is not enough to attract investors or, more generally, to restore the confidence of national and international economic actors, but requires a more differentiated approach. In this sense, the government has also learned that governing is arbitrating conflicting interests for the benefit of majorities and sometimes forcing decisions contrary to their preferences. While this may be a trivial statement given permanent electoral competition, it is not in the Argentine context of zero-sum games. At the very least, the IMF agreement can be interpreted as a political learning, albeit painful, in relation to the initial optimism that guided economic reform measures to address macroeconomic and social imbalances. However, as with other policy changes, there is no clear judgment about the degree of voluntary or non-alternative-driven learning.

Nonetheless, there were several learning processes, of which exchange rate management is only one example. By initially moving from a rigidly managed system to a floating exchange rate, the government learned that a crawling-peg mechanism is more appropriate for dealing with the multiple problems associated with that issue and introduced it in 2018. Again, the "convincing" arguments of IMF staff may have helped.

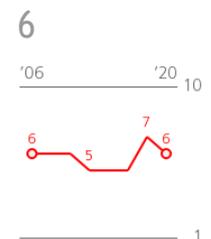
There is little information on the institutionalized learning capacity of the government. While a monitoring system (Sistema Integral de Seguimiento y Evaluación de la Gestión, SISEG) formally exists, it is apparently not actively used. The Argentina-based NGO CIPPEC has stated in its analysis of Macri's fourth speech to the nation opening the parliamentary sessions in 2019, there was little evidence of thorough monitoring, or at least he did not demonstrate this. In contrast, the monitoring by the IMF, which has established an office in Buenos Aires to monitor the evolution of the 2018 stand-by agreement, on the one hand, may be considered as a credible evaluation instrument that may strengthen the incipient policy learning the government has demonstrated in the points mentioned above. On the other hand, it remains unclear – and certainly many Argentines have their doubts – if this is a welcome instrument or merely results from distrust in the Macri government to effectively pursue the accorded program, given the open or latent rejection of IMF involvement in Argentine politics and economy.

15 | Resource Efficiency

The government makes efficient use of a considerable part of available personnel, financial and organizational resources, but still encounters difficulties pursuing necessary structural reforms that would enhance efficiency. Concerning financial resources, one of the government's priorities was to attack the inherited unsustainable fiscal situation and establish a more solid, stable and transparent fiscal system, particularly concerning the high level of primary public expenditure (including provinces and municipalities), which had reached 42.2% of GDP in 2015 – no less than 17 percentage points higher than before the deep 2001 to 2002 crisis. However, recent government policies have been only moderately successful in restoring fiscal stability. The 2017 Fiscal Responsibility Law established that current primary expenditure cannot be increased above inflation, or above primary expenditures in the case of provinces with high deficits or indebtedness. Nevertheless, the public sector deficit remains high, reaching 5.8% of GDP in 2016 and 2017, and 5.6% in 2018. Public debt increased considerably from 2016 and 2017 (about 55% of GDP) to 77.4% of GDP in 2018. The draft budget for 2019 included streamlining public administration by downsizing, merging or eliminating a dozen cabinet ministries, slashing all non-essential spending and restricting spending on public work projects to those already begun – all this with the aim of balancing the budget, reducing the fiscal deficit to zero in 2019. A 2018 IADB study estimates the technical inefficiency in targeted transfers, procurement and wage bill at 7.2% of GDP, the highest waste in the region and four times higher than best performer Chile. 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. Periodical IMF reviews of the stand-by arrangement of 2018 provide somewhat effective and independent audit.

An indicator for a slightly more efficient use of resources is the move to 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 and political appointees replaced by technical staff. An additional measure aimed to reduce the budget deficit was a cabinet restructuring in September 2018. Ten ministries were eliminated, absorbed by other ministries or downgraded to a secretariat. These included the ministries of science and technology, culture, energy, agro-industry, health, tourism, environment, labor, and modernization.

Efficient use of assets



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. 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. 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. Responsibilities were not always ascribed in a transparent manner to avoid redundancies and frictions between government branches. Some members of the government complained of an overloaded agenda, many issues without prioritization, 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 treasure minister and Luis Caputo as finance minister. In addition, in the context of negotiations and agreement with IMF the government merged the former ministries of the Treasury and finance under a single Ministry of Finance and appointed the Minister of Finance as the economic coordinator of the cabinet. In sum, the coordination capacity of the government since the midterm elections advanced.

One of the most damaging legacies of the Fernández's presidency was endemic corruption, which was rarely investigated. Macri has taken decisive anti-corruption steps and established new institutional and legal arrangements to prevent corruption. In September 2017, a long-awaited access to information law came into force. The law established a Public Information Agency, an autonomous body operating under the executive branch through which citizens may request information from state agencies. 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.

As a consequence of the change in political climate, judicial authorities inducted and prosecuted a number of current and former government officials who committed abuses, including a number of investigations against high-level officials of the former government and former president Fernández de Kirchner, as described under "prosecution of office abuse". However, many politicians still hold immunity in connection with their offices so are shielded from judicial investigation. Not least, reliable auditing of government spending and the regulation of party financing remain issues for future reform.

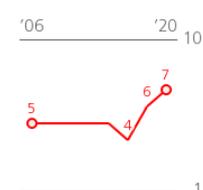
Policy coordination

7



Anti-corruption policy

7



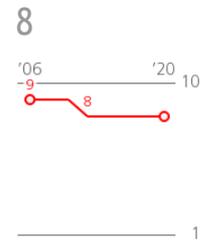
16 | Consensus-Building

All relevant political actors agree that consolidating democracy should be one of Argentina's development goals. 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. However, for his opponents in leftist circles, Macri's victory was a soft coup d'état, and his cabinet an anti-democratic club of technocrats and big business interests.

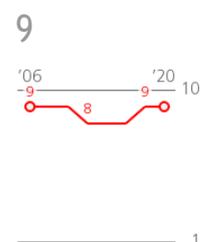
All relevant political and economic actors agree that consolidating a prosperous market economy should be one of Argentina's long-term strategic development goal, but ideas about its configuration and the strategies that should be applied vary. Left-wing Peronists (especially Fernández's FPV coalition),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

Today there are no relevant veto actors left with an explicit anti-democratic agenda. The military is under civilian control since the Menem era. No trade union resorted to violence as a strategy or was 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. 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.

Consensus on goals



Anti-democratic actors



Despite severe economic and social problems, which have repeatedly ended in exacerbated conflict, the government has prevented cleavage-based conflicts from escalating. 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.

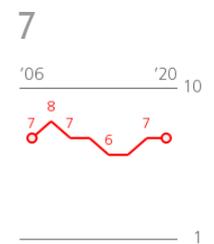
One of the priorities of Macri was to replace the policy style of confrontation and exclusion with dialog between the government and potential allies, building bridges and forming issue-oriented coalitions through the use of incentives, to ensure parliamentary support for structural reforms, close gaps 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.

With the beginning of the campaign for midterm elections in 2017 and the recession in 2018, Macri's gradualist strategy has been increasingly questioned and met its limits. At the end of 2018 and the beginning of the presidential election year 2019, the political discourse radicalized. It is therefore an open question if Macri's valid policy style of moderating the traditional cleavage is sustainable.

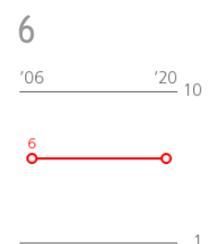
The Macri government recognizes the importance of Argentina's civil society contributions, but considers them only selectively in view of the latent polarization between Peronists and anti-Peronists. Until now, there is no formal policy framework that facilitates civil society participation. Instead, 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 a recession under the neo-protectionist measures of the two last years of Fernández's government, this neo-corporatist strategy became increasingly difficult and came to an end finally with Macri's radical opening policy. 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. With the deepening of the economic crisis in 2018, rollbacks in some key areas of social contestation, cases of violent police responses to public assemblies and increased judicial persecution of activists, the participation of civil society actors in the political process was reduced.

Cleavage /
conflict
management



Civil society
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 fierce military regime (1976-1983). 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. According to the Attorney General's Office, as of September 2016, 2,541 people had been charged, 723 convicted, and 76 acquitted of crimes allegedly committed by Argentina's military junta during the country's "Dirty War." 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.

A Supreme Court ruling in May 2017, ratified by three of the five judges – including two who appointed by Macri – facilitated the release of hundreds of those convicted for human rights violations during the last military regime. The court ruling came days after the Catholic Church in Argentina pledged for "Reconciliation" between the military and their victims. But Argentina's main human rights groups have pointedly refused any such attempts at reconciliation. Relations between the relatives of the "disappeared" and Macri were already strained after the president called into question the number of "desaparecidos" claimed by human rights groups.

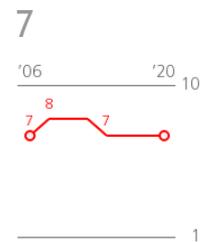
17 | International Cooperation

The Macri government has rather clear aims of political and economic development, but has only an ambiguous roadmap to reach these aims – above all economic reform – given the volatile economic conditions, and is therefore only partially able to clearly define the inputs required from international partners. As Argentina is only marginally a recipient of official development assistance (ODA), support refers almost exclusively to reverse Argentina's economic malaise.

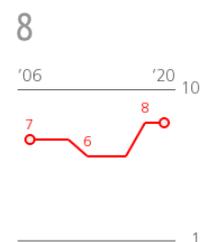
In response to the growing isolation of the country during the second Fernández government, Macri started his term under the leitmotiv "come back to the world" with a set of opening measures. Regaining IMF confidence granted Argentina access to funding at lower interest rates. For the new pragmatic decision-makers, foreign policy, which has a clear focus on economic issues, should be based on facts and evaluated on results. Both the IMF and World Bank applauded Macri's reform program. In view of the severe crisis in 2018, the government successfully turned to the IMF for a \$50 billion loan.

In contrast to his predecessor, Macri also tried to improve bilateral relations to cushion his market economy reform goals trying to establish confidence and attract foreign investments in the U.S., the EU and China. With respect to the U.S., one of

Reconciliation



Effective use of support



the government's achievements in terms of bilateral trade has been the definitive authorization for lemon exports to the U.S. after a 16-year ban.

Given Argentina's complicated situation, credibility – usually referred to in 17.2 – for the country simply means cash and wealth. In this view, the 11th WTO Ministerial Meeting in 2017 and G20 Summit in 2018 have been a success and image gain for the government and country. In addition, Argentina is an observer in the Pacific Alliance, and its process of accession to the OECD advanced.

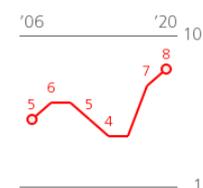
The new government has learned from international know-how and tries to adapt external advice through different instruments to domestic realities, evidenced by the 2018 IMF arrangement that also includes important institutional reforms (e.g., the central bank).

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, as was shown during the 2018 G20 summit. The successful debt arrangement with the government's holdout bondholders, one of Macri's first steps, was widely seen by the international community as a very positive step toward rebuilding confidence and reintegrating the country in the international arena. This confidence also contributed to the successful \$50 billion stand-by-agreement with the IMF in 2018.

The government has repeatedly articulated its commitment to international norms, the liberal and multilateral order and compliance with existing international agreements and has gained the confidence of international donors and compliance-monitoring institutions. However, this high degree of international acceptance has until now not resulted in substantial concrete commitments (e.g., a real increase of foreign direct investments) in the amount expected by Macri. The country's high inflation rate is one of the factors making it more vulnerable than other emerging markets to moves by global investors away from risky assets. Macri's government has reduced the practice of his populist predecessors printing money to finance large budget deficits, causing consumer prices to spike. However, his hikes to utility prices as part of an effort to reduce subsidies and close fiscal deficit have kept inflation and interests high and increased doubts in the international community about the capacity of the government to manage the crisis and recover growth.

Credibility

8



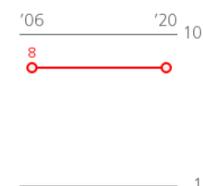
Argentina's political leadership cooperates with all neighboring states and complies with rules set by regional organizations. Mercosur is Argentina's most important trade agreement. Relations with Brazil, Argentina's most important partner, followed by China and the United States, were deepened already during the Kirchner governments. Since Macri, there have been strategic shifts in order to finish protectionist policies, change directions, enact important reforms to improve fiscal health in both economies, and end double taxation for service-sector bilateral trade. In April 2017, the bilateral production and trade commission agreed to forge closer economic ties and boost bilateral trade. The right-wing presidents Temer and Macri gave new impetus to negotiations with the European Union, which had been blocked for more than one and a half decades, and fortified relations with Mexico, Peru, Colombia and Chile.

However, there is an ongoing conflict with Bolivia on the conditions and time of contract of gas delivery from Bolivia, which has also consequences for regional energy politics and even for Mercosur.

Macri aspires to convert Argentina into a pivotal state of integration and intends to strengthen ties with the other Southern Cone partners, looking away from the Bolivarian axis and calling for government change in Venezuela. Brazil and Argentina are members of the Group of Lima, composed of roughly a dozen center-right governments that recommend sanctions against the Venezuelan government and free elections in this country. 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. Along with the United States and various Latin American and European countries (including the EU on February 2019), it has recognized Guaidó as president of the Venezuelan parliament and as the country's interim president.

Regional
cooperation

8



Strategic Outlook

After three years of Macri's central-right government, the structural basis for sustained economic development of Argentina remains fragile. The government's development strategy focused on exploiting the comparative advantages of a country with abundant natural resources which, in the long run, will undermine development. The country remains dependent on foreign investment to finance economic growth and fuel employment. Macri also relied on high-yield debt bonds to lure foreign investors and provide confidence in the Argentine economy. Argentina needs to focus on more than just export growth. Susceptibility to external shocks, particularly to world commodity-market prices, remains high, while the informal sector remains large. The inclusion of Argentina's industry in production chains is rather modest. 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. The economic prospects for 2019, an election year, are not promising. The IMF World Economic Outlook predicts that the country would contract 1.7% in 2019.

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 to achieve in the face of strong veto groups. Any attempt to strengthen the bureaucracy will fail due to political resistance in Argentina's clientelistic political system. The new government has taken 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.

Until now, Macri has failed to deliver on his promises to cut public spending and reduce inflation. If this is possible in an election year is not very probable. Notwithstanding the economic crisis and growing social discontent, Macri's approval rating remains solid between 30% and 40%, which is not impressive, but beyond his most important competitor Fernández. In the best-case scenario, the IMF loan will calm markets, reassure investors that things are under control and restore financial stability. All of this could lay the groundwork for Macri to have a successful re-election. If, by contrast, the loan and the new crawling-peg exchange rate system, introduced in October 2018 by the central bank (BCRA) on the device of the IMF, fails to work and serves to usher in

another phase of economic uncertainty and crisis, followed by austerity measures and bailouts, Macri's re-election will seriously be jeopardized.

Macri's prospects for re-election in 2019 depend also upon continued divisions among opposition Peronists. It is an open question at the beginning of 2019 if Peronists regroup, would emerge as a more moderate movement and are able to agree on a single candidate for the presidential elections, or return to the populism of the Fernández de Kirchner years. Fernández is still seen as the only opposition leader able to challenge Macri. A public opinion poll by pollster Elypsis, published by Clarín on November 6 gave Macri 29.9% of possible votes, putting him in the lead. However, he is closely followed by Fernández with 26%, almost double the level of support expressed for the next opposition figure, the PJ governor of Salta province, Juan Manuel Urtubey with 13.9%.