

KIRCHNER AND ARGENTINA

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Argentina has just elected a president whose views are largely unknown. Néstor Kirchner was the governor of Santa Cruz, a small province in Patagonia, when he was handpicked as a candidate by the outgoing president, Eduardo Duhalde. This was different from the Mexican *dedazos* in that the politicians pointed to there by the outgoing president as the all-but-certain next president were invariably prominent personalities. What we know about Kirchner's thinking comes from his campaign statements, his Web site, his inaugural address, and what has been gleaned by examining his record as governor. He was not helped by the circumstance of his election by default, when his main opponent, former president Carlos Menem, withdrew just before the runoff date when his overwhelming defeat was apparent. It is not fair to say that Kirchner had the positive support of only 22 percent of the electorate (his share in the first round), but that is the way it was played by much of the Argentine media. It would have been better for all concerned if Menem had withdrawn immediately after the first round on April 27 and if Ricardo López Murphy, who came in third, had then entered the two-person runoff with Kirchner. That would have been a real election.

Kirchner inherits a horrible situation and any reasonable person must wish him well for the sake of the Argentine people. The Argentine GDP declined by almost 11 percent last year, following a spate of declines during the previous four years. The economy now appears to be growing at a 4 percent rate for 2003, but this is based largely on exploiting unused capacity for import substitution. Using idle capacity has a short life, and significant new investment is needed for the stimulus to be more than a temporary blip. In other words, Kirchner has only a short time to instill confidence in both domestic and foreign investors—and they are notorious “show-me” types. Argentina is not paying its external debt, another situation that cannot continue much longer. Unemployment is at 21 percent, and an estimated 50 percent of the population in this once middle class country now lives in poverty. Crime is now rampant in Buenos Aires, long

reputed to be one of the safe cities in Latin America. Kirchner's recent statements, including his inaugural address, seem to be directed at two audiences: the domestic population, to which he speaks like a populist; and the foreign community, to which he emphasizes conservative orthodoxy. This may be a political necessity—after all, there are two audiences, and no politician can long endure without catering to the one that elected him—but it makes for uncertainty as to which pronouncements will dominate when concrete actions must be taken. In his inaugural address, he advocated a large public works and housing program, in part to stimulate the economy and provide jobs quickly. On this, he cited what the United States did during the Great Depression of the 1930s. In another part of this speech he stated that the government should not spend more than it collects in revenue, that it must run fiscal activities without resort to further debt or printing more money. Which will it be, significant infrastructure spending or a balanced budget? Like the FDR administration during the depression, my guess is that the fiscal balance will go—at least for a time. As he put it in his speech, the country cannot continue to cover the deficit by “permanent” indebtedness or resort to monetary emission “without control.”

Argentina, he said, is not the kind of country to base its national project on debt default, but the applause line that followed was that paying the debt could not be done at the cost of postponing access to dignified housing, secure jobs, education for the nation's children, and providing health care. He also laid down three conditions for debt restructuring: reduction of the total amount (now about \$134 billion, of which about \$50 billion needs rescheduling); lowering the interest rates; and lengthening the maturities. All this leaves uncertainty about how long debt restructuring and payment will be delayed. The longer it takes to do that, the more difficult it will be to secure foreign investment; and this plays back to the need to attract new investment to sustain the modest economic recovery now under way.

Brazil is Argentina's largest export market, and the combination of Brazil's devaluation in 1999 and Brazil's lackluster economic performance hit Argentina hard. Exports to Brazil and other Mercosur countries are only now showing some recovery. What Argentina should have learned is that Brazil alone is a weak reed on which to base trade policy. Argentina has not been a major trading nation. Its export to GDP ratio oscillated between 8 and 10 percent during the 1990s. There was a big jump in 2002 to an estimated 33 percent, but this was due not to increased exports but to the sharp decline in GDP. Argentina's trade balance improved in 2002; this again was not due to increased exports, but rather to a sharp drop in imports from \$27 billion the year before to less than \$14 billion. If the Argentine economy recovers, import demand will surely grow. I suspect that the hope of preventing this from happening is at the core of the stated policy of more import substitution. This may be more dream than reality.

My reading is that Argentina needs the FTAA in order to diversify its export markets. Chile and Mexico realized that it is better to have trade access to a large market than to a modest one, to have a trade agreement with a rich country and not just with relatively poor countries.

Kirchner's position on trade issues also seems to be directed to two audiences. He undoubtedly realizes that his pronouncements to an Argentine audience are available outside the country, but this is another manifestation of the dominance of domestic politics. President Kirchner's Web site contains the following statement on trade and production: "The years of uncontrolled neoliberalism without protection of work in Argentina, and of indiscriminate opening [to imports], led to the collapse of national industry and its inevitable outcome: unemployment and misery for millions of Argentines." (My translation.) This does not sound like a president prepared to enter into serious trade negotiations. On the other hand, in his inaugural address, he said that "our country must be open to the world" in what he called a "realistic manner." It will take a little time before his true intentions can be discerned.

The mostly unstated but generally understood position when Carlos Menem was president was that Argentina wanted the FTAA to succeed because that way access to the U.S. market could be assured without having to break Mercosur unity. Good political relations with Brazil are important to Argentina, and the Mercosur customs union, imperfect though it may be, provides trade benefits. Brazil's position on the FTAA has long been ambiguous and remains so under President Lula. Lula has made light of the agreed date—the end of 2005—to terminate the negotiations. Now the president of Argentina, like Lula, has stressed the primacy of Mercosur over other trade negotiations. As he put it in his inaugural address: Argentina is ready to compete in the

policy of regional trade preferences, through Mercosur.

It is worth repeating Kirchner's formidable tasks. He must deal with corruption, as he said in his campaign and his inaugural address; he must end the impunity of those engaging in corrupt or other extra-legal activities; he must deal with the rising crime in big cities, especially Buenos Aires; he needs resources to improve health and educational facilities; and he must deal with the poverty that has marked Argentina since the economic collapse last year.

None of the important social goals can be achieved without a restoration of economic growth, something that has eluded the country over the past five years. What Argentina needs, however, is not just one or two years of growth. This may be attainable by delaying debt repayment, priming the fiscal pump through public works, and relying on installed industrial capacity until that gives out. Alan García did that when he became president of Peru in 1985, but after a few years the Peruvian economy hit bottom.

By the same token, Kirchner cannot practice austerity—in order to satisfy the foreign gurus who urge him to pay attention to economic fundamentals like a balanced budget and an open market—with any assurance that this will lead to more growth in two or three years. If that were Kirchner's policy, he might not be there when the promised economic growth comes. This is not an uncommon dilemma of leaders after a severe collapse. Lula faces a similar task, in that he must eventually respond to the social needs of the people who brought him to the presidency. Kirchner's task is harder; I'm not sure the word "eventually" can work for him.

Kirchner and Argentina have to work out the balance. How much public works, how much education and health care expenditures, how much deficit, how much trade protection, how much debt repayment delay—these are the critical decisions. And this complex task has been given to a political neophyte at the national level. I wish him well.

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