

ARGENTINA CASE STUDY

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LIST OF SYMBOLS

- INDEC: National Institute of Statistics and Censures.
- OEC: Observatory of Economic Complexity.
- OECD: The Organization for Economic Co-operation and Development.
- FAO: Food and Agriculture Organization of the United Nations.
- GDP: Growth Domestic Product.
- CEPAL: Economic Commission for Latin American and the Caribbean.
- BCRA: Central Bank of the Republic of Argentina.
- WTO: World Trade Organization.
- IMF: The International Monetary Fund.

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ABSTRACT

The aim of the project is to analyze and understand the events that have taken place throughout history in Argentina, which have made a country that had incredible potential suffer devastating economic and political situations, ending in one of the most serious defaults in history. Additionally, the project summarizes in a SWOT Analysis (Strengths, Weaknesses, Opportunities and Threats) the situation that Argentina is currently living, under the new government that started in 2015 with President Mauricio Macri. Thanks to recently instituted policies, Argentina has been able to introduce itself again in the international trading market and is now one of the emerging economies with a brighter future.

1. INTRODUCTION

According to an article published by The Economist (2014): “In 1914, Argentina stood out as the country of the future. Its GDP per head was higher than Germany’s, France’s or Italy’s. It boasted wonderfully fertile agricultural land, a sunny climate, a new democracy (universal male suffrage was introduced in 1912), an educated population and the world’s most erotic dance. Immigrants tangoed in from everywhere. For the young and ambitious, the choice between Argentina and California was a hard one”.

The aim of this project is to analyze, explain and understand the evolution of the path travelled by Argentina throughout this century, from a future of unlimited growth and wellbeing to economic and political chaos. The report analyzes key events of three selected areas considered of importance: Agriculture, Manufacturing and Banking and finance. Moreover, the project tries to describe Argentina’s current outlook as well as the expected behavior of the economy within the near future. In order to do so, it provides an analysis of Argentina’s Strengths, Weaknesses, Opportunities and Threats (SWOT Analysis).

Section 1, *Agriculture*, begins with an explanation of the role that Agriculture has played in Argentina. Compared to its neighbors in the region, Argentina has had a comparative advantage when it comes to Agriculture as it has been endowed with very fertile lands and favorable climatic conditions. Therefore, the sector has allowed Argentina to enter the international market and has been a very important source of income for the country. The Section continues with a description of the Argentine Agriculture specialization, highlighting its main crops and most fertile lands. The chapter closes with the evolution of Argentina’s policies towards agriculture, how have the different political regimes favored or hindered the sector.

The second section of the project is dedicated to *Manufacturing*. Starting with the Agro-Export model and the first phase of Argentina’s industrialization (1880-1930), the period was marked by investment in industrial infrastructure, significant migration

from Europe and a strong dependence on the European continent, which was the reason why the period ended. The second Phase, Juan Peron's Imports Substitution model (1930-late to 1970s), influenced by Peron's admiration for the rapid industrialization that Mussolini carried out in Italy. During this period, manufacturing became a very important player in Argentina's economy. Policies were aimed to favor the sector and boost the internal production of goods that were being imported from the outside. In 1976 came the Military Dictatorship and the Third Phase of Industrialization, which lasted until 1990s. The main feature of this era is, in contrast with Peron's trends, the opening of the country to the international market, eliminating disincentives towards imports. In 1991 starts the so-called "Convertibility Plan" and with it the de-industrialization of the country. Next, the Kirchnerism that started in 2005 with election of President Nestor Kirchner. Overall, he brought in a more regulated period, with the introduction of export taxes again and the refusal of President Nestor Kirchner to be part of the Free Trade Area of the Americas (FTAA), a proposition for the creation of a free trade zone from Alaska to Tierra del Fuego.

Banking and Finance, the third part of the project explains the different monetary regimes throughout history, starting with the Military dictatorship and the Financial Reform of 1977 under Martinez de Hoz, the Minister of Economy at the time. Because the reform did not meet its main objective of decreasing inflation, another attempt called the "Tablita" took place in 1978, which consisted of a programmed devaluation of the peso based on a conversion table. The measure led to the propagation of speculative capitals and the "financial bicycle", a period where Argentines made a lot of easy money. The project then continues explaining the "Austral Plan" under Raúl Alfonsín's presidency and the measures and consequences of the Convertibility Plan, which led to Argentina strongly depending on the inflows and outflows of foreign currency. Because of this, during the 1990s, due to several external shocks such as the Asian Crisis of 1997, the Convertibility Plan started to show its first evidence of decay and ended in 2001, after the third Default of Argentina on its external debt. From that point, the thesis explains how different authorities tried to reactivate the economy. A very important part of the study is the debt renegotiation, which is

explained in detail. The section ends with Argentina's return to international trading in 2015, under its current President Mauricio Macri's government.

The last Section of the project, Section 4, contains a SWOT analysis of the situation that Argentina is currently living, after all its complicated past. It is a country with a lot of advantages (Strengths), generally marked negatively by its past (Weaknesses), with a lot of potential (Opportunities) but needs to be carefully managed to avoid repeating its history (Threats).

2. AGRICULTURE

2.1. Agriculture's role in Argentina

The agricultural sector has always played and continues to play a very important role in the Argentina's economic growth and evolution because of its high impact on the GDP, employment and regional development. It is also a key reason for important positioning of Argentine internationally as a supplier of aliments (being this sector its most competitive conglomerate production as a whole and in each of its regions).

It has been critically important throughout the history of Argentina. Deep and rich soils, temperate climate, adequate rainfall and good access to maritime transport give Argentina an exceptional potential for agricultural production. This has allowed agriculture to perform well despite more than 50 years of largely unfavorable policies by the government to the detriment of agriculture and for the benefit of manufacturing. After the third default in 2001, the agriculture sector has played a very significant role in the recovery of the economy. According to the INDEC (2017), the country has a continental surface of 2.8 million square kilometers and a 37.2% is dedicated to Agriculture. In 2003, the sector was responsible for the 11% of the total GDP. (The World Bank Group).

One of the key features of Argentina's agriculture is that it has the potential to not only feed the country itself but export around the world too. For instance, on 2014, a 42% of the world exported soymeal came from Argentina (David E. Bell and Mary Shelman, 2015). The INDEC estimated that for the years 2013 and 2014, the total production of the most important crops totaled 53,000 tons constituting the 60% of the country's total exports.

The agricultural sector is one of the few industries in Argentina that has presented a positive trade balance throughout the past years. The following table shows the average of exports and imports (in millions of dollars) between the years 2011 and 2015 of different sectors and their trade balance.

Table 1: Arithmetic Average, years 2011-2015. Source: World Trade Organization

Indicator	Exports	Imports	Trade balance
Agricultural products	202,86	11,9	190,96
Fuels	18,1	46,77	-28,67
Manufactures	113,6	269,42	-155,82
Machinery and transport equipment	58,04	152,53	-94,5
Office and telecom equipments	521	29,05	-28,53
Textiles	1,06	5,72	-4,66

Agriculture is also an important but albeit small source of employment for the Argentines. The Argentine agriculture tends to be technologically advanced and productive and despite the small employment numbers, it creates significant value in economic production. The World Bank Group estimates that in 2011, the total population of Argentina was of 41.6 million and 3.1% worked in the agribusiness sector (Statista: The Statistics Portal), so that is approximately 1.29 million generated positions. Moreover, it also carries a lot of indirect jobs with it such as transportation and commerce related.

2.2. Argentine Agriculture specialization

The agro-industrial production has an extensive geographical coverage throughout the country, therefore the conservation of a lot of its natural resources depends on these activities. Also, the poorest regions of Argentina practically only dedicate themselves to this sector so its economic and social development depend on it too.

The most important agricultural region is the oriental Pampa and the south of Mesopotamia, with favorable soils and climate for the cultivation of cereals, oilseeds, fodder, fruit and vegetables. Tropical crops find its favorable conditions to grow in other areas like the Northeast of Formosa, the North of Salta and the areas around Jujuy. There are also large areas where agriculture is only possible with the help of artificial irrigation, and the land is used for high-value crops such as fruit and vegetables.

Examples of these are the arid provinces Cuyanas, the Northwest and the Patagonian zone.

Due to the volume of production and cultivated area, cereals and oilseeds are considered the main crops of the country. Cereals include wheat and maize production and oilseeds consist of soybean and sunflower. The OEC estimated that in 2015, soybean meal represented 16.6% of the total exports of Argentina. During the last four decades, its production has been increasing and in 2016, the total production was of 34.350 million metric tons, the highest volume since 1977 (Index Mundi). According to a study published by the OECD (2008), the production of soybean became important between 2005 and 2007, when prices nearly doubled. As for cereals, the most grown is wheat, with a cultivated area of approximately 6.3 million hectares and followed by 3.1 million of maize. (FAO)

Industrial crops are also very relevant in the Argentine agriculture and tend to be cultivated in the north of the country due to their need of hot and humid climates. These include cotton, sugar cane, tobacco, yerba mate and tea, among others. They are called industrial because, unless they are subject of an industrial process, they have no utility freshly harvested.

Nowadays, Argentina is the world's leading exporter of lemons and pears and occupies a minor place in the export of apples and other citrus fruits such as oranges and mandarins. The exportation of apples has fallen due to the poor offered variety, specializing their production in two types; Red and Granny. Per a study carried out by the Department of Pomology of Rio Negro, apple exports declined a 46.83% from 2009 to 2014.

Horticultural crops are grown around some big cities such as Buenos Aires and Mar del Plata. The highest production of winter vegetables takes place in the valley of River San Francisco (Jujuy). Also, the tomato crop in Mendoza should be highlighted, which is mainly intended for preserves' production.

Fodder is used to feed livestock. They are usually developed in areas with less ability for other crops, as they are resistant to different types of water stress and climate (such as those caused by floods or droughts) and adapt to a wide range of soils. Together, forage farmers occupy the largest area of land planted with crops in the country. Most of the fodder is directly consumed by animals, while a smaller part is harvested.

In recent years, medium and small businesses, trying to find new exportation alternatives have developed the production of non-traditional crops such as stone fruits (apricot, peach...), fine fruits (also called berries), tropical fruits (mango, papaya...), kiwi and dried fruit. These products, because of their volume, represent a small part of the Argentine agribusiness production and exports. Because they are different, they are considered to have a greater value than traditional crops because of specific natural attributes.

2.3. Argentina's policies towards agriculture

There is a relationship between agriculture and economic growth and in Argentina, for several decades of the last century, this relationship has been distorted. The industrialization/manufacturing has been emphasized at the expense of agriculture, undermining the potential of agriculture to contribute to the national development. The national goal of industrialization was adopted by Juan Peron and was followed by successive governments for quite a long time. The emphasis on manufacturing also made subsidizing it a common practice, at the expense of the taxpayer and other sectors.

Until 1930 Argentina had undergone a large period of agricultural expansion due to the labor input supported by European immigration and a high level of investments, both in agricultural holdings and infrastructure. This period was characterized by an important development in basic products. Until then the economy was very open,

international trade of great importance for the economy and there was no direct taxation on agricultural exports.

The rally ended with the collapse of prices during the Great Depression in 1930. During these years, large outflows of foreign capital took place and there was a sharp international decline in agriculture related product's prices. This situation was followed by World War II during which, because of the blocking of the maritime commerce, Argentina accumulated huge quantities of cereal reserves that could not sell.

Because of the disappointing experience with the international trade, pessimism lead to questioning the role of the sector in the economic maintenance. This trend marked the growth of a policy that promoted the industrial development to reduce imports and the imposition of taxes on the agricultural sector (overvalued exchange rates made exports of grains difficult and export duties on cereals and beef, among others), pushed Argentina back from the international market. The protectionism in favor of manufacturing also created a domestically oriented industry with high production costs with inefficient tendencies.

In the late 1980s, Argentina's economy was characterized by instability. In the year 1989, inflation rate reached 3,071% (The World Bank Group). President Carlos Menem's government embarked in a "free market" path. With the convertibility plan¹, which pegged the Argentine peso to the U.S. Dollar, economic reforms took place in order to stabilize economy and create a more liberal policy regime favorable to agricultural investment, production and exports. These policies included elimination of quantitative export restrictions, elimination of distorting taxes in fuels and removal of inefficiencies and monopoly profits in the trade channels (transportation, elevators and ports). This more stable environment encouraged farmer to invest in better inputs and more efficient machinery.

¹ The Convertibility Plan will be discussed in Section 4.3

During the years of 1991-2001 the Argentine governments continued liberalization, privatization and the dollarization process, by which Argentina adopted the U.S. Dollar as its only currency closing the peso-dollar interest rate spreads. Also, the start of MERCOSUR {the Common Market of the South America} took place. All of them helping the agricultural sector's economic and political well-being.

In 2001, a federal budget crisis led to public debt default and devaluation. Argentina was marked by macroeconomic imbalances with the overvaluation of the currency and the lack of credit. These facts changed the situation for the vast majority of agricultural producers. In 2003, President Nestor Kirchner re-introduced export taxes on agricultural products as president Menem had eliminated them. Despite of the high export taxes, which for example reached a 35% in soybeans in 2007 (William N. Dowd, 2009), new investors were willing to open business in farming. Most of them were motivated by their lack of trust in the banking/financial system and valued the ability to sell in dollars terms overseas rather than pesos.

The fall in Argentine Pesos in the 21st Century, turned Argentine products cheaper in an international market and, as well as Argentina is known for consuming the same goods they export, prices in the domestic markets and inflation rose along with decline in Peso exchange rate. For example, in the period of 2000 to 2005 exports of soybeans increased from 4.1 billion tones to 9.96 billion tones, respectively, which is an increase of 141.6% (FAO).

President Cristina Kirchner's, who had taken over from her husband as president of the country in 2007, increased export taxes to take advantage of the sudden high revenue coming from exports and with the aim of controlling inflation to make goods more accessible to domestic buyers.

In March 2008, Cristina Kirchner made an executive law that rose taxes for soybeans again from 35% to 44.1% (William N. Dowd, 2009). She introduced a new sliding-scale tax system that generated major protests and strikes from farmers nationwide, it was the first time that the farmers had gathered against the law. The new

taxation put a ceiling on farmers' income no matter how high international prices rise. Three months later, in June 2008, Kirchner asked the Congress to vote for the proposal to legitimize the system. To the surprise of all, the general vote was against the proposal so Cristina had to lower the soybean tax to its original value, a 35 percent. It was considered by the farmers a victory against the government.

Although farmers won that battle, they faced other conditions at the same time. Argentina suffered a drastic drought, the worst in the past 100 years, that resulted in a very low crop yield so prices rose again. Crop yield of wheat decreased by a 30.6% between 2008 and 2009, soybean's yield also declined by a 35.5% in the same period. (FAO)

Motivated by their last success, farmer demanded for a new decrease of the export taxes. The government did not succumb to their demands but, instead, they offered them to share 30 percent of the tax export revenue with the provinces.

Given the political and economic environment, agriculture took its own path. Beneficial technological advances were developed and marked a new era for the sector; productivity, mechanization and increased scale.

The years 2010 and 2011 were excellent years for Argentina's agriculture. Even though export taxes were still high, cultivated area was expanded thanks to new technologies, a highly competitive real exchange rate and the global rising of commodity prices. Argentina became one of the top exporters of several products.

Argentina's income from exports was reduced in 2014 due to the drop of commodity prices. Argentina's economy remained heavily dependent on commodities. Agricultural products and agriculture-related manufacturing were about 60 percent of total exports. Capital goods and intermediate inputs comprise about 70 percent of total imports, making the economy highly dependent on the foreign exchange revenues generated by the commodity sector. The price of soybeans (soy products accounted for 30 percent of Argentina's total exports) dropped by 30 percent since early 2014, and

other important export commodities, such as corn and wheat, saw significant price declines.

In 2015, as soon as President Mauricio Macri took over he arranged a new policy to liberalize the agriculture sector. This new trend was opposed to the one that his predecessor, Cristina Fernández, had clung. During her presidency, she established severe restrictions on imports. For example, it became mandatory to associate with companies that exported in order to import another product of the same value and many of the import permits were paralyzed for weeks. These obstacles disappeared with Macri.

The new policy included eliminating export permits for grains and oilseeds, a decrease on export tax for soybeans from 35% to 30%, and abolishing most other export taxes for agricultural commodities like beef (it was taxed at 15%), corn (20%) and wheat (23%) (David E. Bell, Forest Reinhardt and Natalie Kindred, 2016). Macri propelled Argentina into a new currency era by liberalizing the peso and letting it float freely. Argentina's peso devaluated for as much as a 30% (Carolina Milan, 2015). Even though the risk of inflation increasing was higher, this policy was seen by his supporters as a move for Argentina's regaining credibility in the global financial system. These reforms made Argentina's agricultural exports more competitive.

3. MANUFACTURING

The manufacturing sector history in Argentina shows its dependence and the correlation with its historic experience of the two world wars, and incidentally shows its high degree of dependence with Britain in particular.

The process of industrialization in Argentina can be categorized in three large periods. The first one started around 1880 when the country entered into the international markets by adopting the “Agro export model” and ended with the Great Depression², in 1930. The second period is characterized by the adoption of the import substitution industrialization, formally adopted by Juan Peron in 1946, which lasted until the late 1970s. The third of them began by the failure of the policy opening³, carried out by the Military Dictatorship⁴ in 1976, and was extended until 1990.

3.1. Agro export model and the First Phase of Industrialization (1880-1930)

The “agro export model” was based on the existence of comparative advantages in agricultural production derived from the exploitation of virgin lands in the Pampas region, which was converted into the axis of an expansion that seemed to know no limits; endowment of land proved to be endless, while soil fertility made agricultural production highly efficient. Argentina joined the world through exporting its meats and grains, and achieved significant Balance of Goods account. The model required significant investment in industrial infrastructure in processing, railroads, and packaging particularly in the interior of the country to get the food products to the ports and eventually to the export markets, primarily on the European continent.

The Argentine agro-export boom was part of a process of internationalization of trade. The more developed economies in Europe were undergoing an industrial

² The Great Depression, also known as the crisis of 29, was a global economic crisis that lasted during the 1930s, in the years before the World War II. Its duration depends on the countries to be analyzed, but in the majority began around 1929 and extended until the late thirties or early forties. It was originated in the United States, from the fall of the stock market of October 29, 1929, and was the longest and deepest depression in the world

³ The Military dictatorship adopted an open policy materializing in a free market plan. The man in charge was José Alfredo Martínez de Hoz, the minister of economy at the time. It consisted of the elimination of all price controls, free foreign exchange market, free trade, free exports, free imports, opening the market to competition, elimination of subsidies to certain privileged sectors and freedom for foreign investments.

⁴ The Military dictatorship’s policy opening began in 1976 and will be explained later in this section.

revolution leading to excess production of manufactured goods and hence their willingness to export, and an increase in demand for food and raw materials needed for its factories, which they had to import. Argentina's exports of wheat in 1885 were 100,000 tons and in 1913 they reached 2,800,000 tons (Alfredo M. Irigoin). The model allowed Argentina to insert itself into the international market and was known for its exporting of raw materials and food stuff, and importing of external capital and heavy machinery for investment. The double dependence of Argentina on the European Continent and in particular Great Britain as its biggest trading partner exposed Argentine to the economic cycles of Europe.

The trade was not the only growing segment in this period. There were significant migration of people to Argentina from Europe as well as significant investment capital from Europe to Argentina to spend on industrialization. For instance, in the period of 1890 to 1920 nearly three million immigrants travelled from Europe to Argentina seeking for better salaries and the possibility of social mobility (Rafael Di Tela and Ingrid Vogel, 2001). Also, because of the industrialization, the old continent had capital surplus which became available as foreign investment. For example, at the end of 1913, Great Britain had invested approximately £319 million in Argentina (William N. Goetzmann and Andrey D. Ukhov, 2005), especially in the railway system. It radiated from Buenos Aires and communicated the city with the periphery. The system played a very important role in the integration of the interior provinces into the national economy and the development of the export sector as it ensured the rapid and inexpensive transportation of exportable products from these areas to Buenos Aires, where they were sent to Europe.

The conditions for the country's incipient industrialization began to emerge. Among them can be mentioned:

- The existence of competitive goods of the primary sector that required some type of final industrial transformation to be exported (refrigerators, leather, wool, flour, etc.).
- The European immigration flow with previous qualifications in the industrial sector.

- The availability of a rail network allowing transport of products at low cost.

The golden era for Argentina did not last long. The country became heavily dependent on Europe and its ups and downs affected Argentina's local economy too much. In 1914, The First World War broke out and, even though Argentina was politically neutral, its economy drowned with that of Europe. The war interrupted trade flows, demand of exports decreased and the country was prevented from the supply of a wide range of products that it acquired abroad.

In addition to the warfacts that contributed to the end of the "Agro export model" are:

- The conflictive relation between Argentina, the United States and Great Britain. As it has already been mentioned, Argentina and Great Britain had had a close relationship throughout the years. During and after the First World War, Britain lost its role of financial pole of Argentina as the United States became a great power. American capitals started to gain importance in the Argentine economy displacing the British.
- Also, the beginning of the international Great Depression crisis in the 1930s, transformed the behavior of the international order. As it has already been explained, the crisis was originated in the United States, after a fall in stock prices (the Dow Jones Industrial Average⁵ dropped 25% (Kimberly Amadeo, 2017)). The decline in US economic activity caused the collapse of the multilateral trading and payment system and was accompanied by a sharp contraction in world trade (decreasing approximately 30% between 1929 and 1932 (Jacob E. Madsen (2001)) and a resurgence of protectionist practices in industrial economies. Countries began to close their economies through tariffs and production intended primarily for the domestic market. This radically changed the position of the Argentine economy in the world order as the export demand declined significantly and so its export prices fell dramatically.

⁵ The Dow Jones Averages are stock market indices that represent the U.S. economy in three sectors: industry, transportation and utilities.

- However, the model not only lost its momentum due to external events. The Argentine economy had considerably grown as well as its population and could no longer be maintained solely on the basis of exports.

3.2. Second Phase; Juan Peron's Import Substitution (1930-late 1970s)

Juan Peron spent a few months in Italy between the two world wars. While his mission was military training he was impressed with Mussolini's rapid industrialization of Italy to substitute for the need of importing heavy machinery and equipment and for the rest of his life and career he tried to emulate Italy's experience.

During the import substitution process, the manufacturing sector occupied a privileged place in the Argentine economy. As its name suggests, the industrial goods that used to be bought from the outside started being produced by the country. The model was aimed at self-sufficiency in food and industrial products. In this period, the industrial production surpassed the agricultural production and textile, food and metallurgical industries faced a great increase in size and output.

There were three main pillar of import substitution model;

1. An active industrial policy that provided subsidies and direction of state to produce import substitutes,
2. Barriers to free trade (protectionism) such as high tariffs on imports, and
3. Under-valuing the Peso.

The model of import substitution can be described in two substages. The first one, from the end of the "Agro export model" in 1930 until the end of Peron's first government, in 1955. The second substage extends from 1955 until the end of the 70s.

3.2.1. *Import substitution model: First sub-stage (1930-1955)*

In this new sub-stage, industrialization deepened in an accelerated way. It was based on an expansion of existing activities, through the intensive use of labor, and a widening of the domestic market. The State had a very active role in the production of basic inputs and in the application of a wide range of policy instruments: administration of import quotas, financing, sector promotion, etc.

The first protectionist measure took place on October 10, 1931, the creation of the Exchange Control Commission. It intervened in the market to distribute the foreign currencies entering the economy (earned by exporters), responding to the purpose of giving foreign currency to those who were considered to have a greater collective benefit through imports. This distribution of changes, in the face of excess demand for foreign exchange, implied a rationing. The established parity was such that the currency was overvalued, implying a stimulus to imports and a disincentive to exports. The objective was precisely that the currency should not be depreciated but to improve Argentina's balance of payment.

As mentioned before, because of the First World War, Great Britain abandoned its position as Argentina's larger trader and started its financial being replaced by new investors in the territory such as the United States. On May 1, 1933, to protect the Argentine economy and guarantee its trade with the British country, the "Paco Roca-Runciman" was signed. As its name suggests, the agreement was signed by the British Trade Minister Sir Walter Runciman and the vice president of Argentina, Julio Roca. By this, England was committed to continue buying Argentine meats as long as their price was lower than the other suppliers. On the other hand, Argentina reduced the taxes levied on English products and granted preferential treatment for British companies based in Argentina among which was the concession of all means of public transport in the city of Buenos Aires to a British company called Transport Corporation. Concurrently, the Central Bank of Argentina was created with such important functions as monetary issue and interest rate regulation, with a large presence of English officials.

Upon arrival of the Second World War, Argentine faced the dual problem of being unable to import needed industrial products and losing its export markets for foodstuff. Perón's import substitution went into full swing to allow the country to withstand the war far away but impacting its economy so closely.

In 1939, the World War II changed the picture for most of the countries. The Argentine economy, again, was affected by the conflict. As mentioned, for Argentina, the progressive closure of European markets, resulting from the German victories, drastically reduced agricultural exports. The shortage of imports during the war promoted a protection towards Argentine industries.

As a result, Argentina started exporting its industrial goods to her neighbors in the region to maintain its growth in textiles, clothing, food and beverages, footwear and chemical products in the Argentine industrial sector.

In 1946, with election of Juan Domingo Perón, a five-year plan aimed for economic independence was enacted. The measures' goal were:

- Expand the internal market instead of boosting traditional exports to reduce foreign dependence,
- raise productivity,
- improve the distribution of wealth and
- accelerate industrialization.

His government also reacted to short-term economic and political pressures. For example, he established policies that protected post-war industries, he saved private companies from bankruptcy and granted credit to certain sectors of the manufacturers. In contrast, the agricultural sector became a platform to sustain the industrialization, it was used to generate resources for welfare programs and protected industries. President Perón lost the support from the landed elite⁶ as they feared the adopted measures would be a disadvantage of their business due to the diversion of resources to the industrial sector.

⁶ Families that conformed the concentration of landownership in the Pampa region.

At the beginning, the policy was working and showing results, farm production was exceeded by industrial production for the first time and industrial products constituted a 20% of Argentine exports. Also, between 1943 and 1948, real wages for industrial skilled workers rose by 27% and for unskilled workers by 37%. (Rafael Di Tella, 2001)

It was in the period from 1949 to 1952 when the picture got distorted. Inflation rose over 30% and industrial output began to point to the decline of the economy (Rafael Di Tella, 2001). The President responded with austerity restrictions such as the freezing of wages. Also, in order to continue with his industrialization process, he had no option but to start attracting foreign investment.

Within a few years after the election, Perón's government started to be more and more totalitarian. In 1953, the government began to imprison opponents and censored all means of the opposition, they were systematically terrorized. Education took a back seat and its budget was used in propaganda activity. Anti-Peronists terrorist acts began, like the attack the 15th of April 1953 in the Place of May. A Terrorist attack that consisted of the detonation of two bombs while the president was giving a speech near the location. In response to the bombs, Perón provoked supporters to burn down several buildings belonging to the opposition. In 1954, Perón approved a Law that included the divorce and this provoked the confrontation with the Catholic Church that had actively supported the Peronism until that year.

On September 16, 1955, the navy revolted with the support of army battalions in the interior. General Eduardo Lonardi proclaimed a "Liberating Revolution". A military junta in Buenos Aires took control of the government on September 18, and Perón fled into exile (until 1973). Lonardi was nominated provisional president.

3.2.2. *Import substitution model: Second sub-stage (1955-1976)*

In this time span, and centered in the petrochemical and metal-mechanical complexes, the industry had its most outstanding performance becoming the engine of economic growth, employment creator and accumulating capital. Between 1964 and 1973, the manufacturing sector enjoyed a continuous growth, presenting a peak in 1969, where the sector had an annual growth of 11.55%. (The World Bank Group)

Within this period, there was an entry of subsidiaries of transnational corporations. These were small investments, basically in machinery and equipment, aimed to produce the essential for the internal market. Also, there was a strong oligopolistic structure in the main manufacturing activities.

These changes generated an accelerated technological development process based in the incorporation of the technologies from developed countries; for example, the Ford production assembly line was adopted.

3.3. Military dictatorship and the Third Phase of Industrialization (1976-1990)

In 1976 the armed forces took over the government as inflation reached the incredible level of 3,000% (Rafael Di Tela and Ingrid Vogel, 2004). During this period, the principal aim of the economic managers was to brake inflationary price increases, improve industrial productivity, and promote competitive potential of the Argentine exports.

In 1977, the Tariff Reform Plan was implemented, which by eliminating import barriers, sought to enable the country to enter more vigorously into world markets while introducing healthy external competition to domestic production.

But military's measures were not very effective and lead to a 40% drop in real wages from the previous five-year average without appreciable drop in inflation rate (Rafael Di Tela and Ingrid Vogel, 2001). They also led to a drop in tax revenues and the Military's imposition of taxes on agricultural sector to support the manufacturing sector.

In 1979, the government then changed to a fixed exchange rate. Several wage, price control and fiscal policies aimed to control inflation failed. Imports increased and drowned local industries that were left to fail. Foreign capital started to run off and the Peso experienced a series of devaluations. In the following 18 months, the U.S. Dollar went up 100%, there was a 20% average monthly inflation, reduced activity, real wage decreases, drops in investment and the fiscal deficit reaching 16% of GNP. (Rafael Di Tela, 2001)

The surprise invasion of the Falkland-Malvinas Island by the Argentine military in 1982 gave way to chaos. Foreign investor lost confidence in the country and started to withdraw their funds. Because of the capital flight, the government could no longer pay its external debt. This situation led to growing uncertainty that resulted in the withdrawal of skilled workers and capital fleeing the country.

In 1986, given the difficult situation facing the county, Juan Vital Sourrouille, Raúl Alfonsín's Minister of Economy, prepared an economic plan in which the central objective was to develop the industry through a process of expansion and manufacturing restructuring based on the growth of exports and the internal productive investment. The goal of the process was the transformation of the industrial structure towards a model specialized in international trade, as in the past the external markets were to sop the contraction of local demand. Vital recognized than in order to achieve its objectives it was indispensable to modernize the industry and incorporate new technologies.

His main measures were:

- Export promotion.
- Tariff protection and selective import substitution.
- Industrial restructuring.
- Industrial promotion and regional development.
- Technological development.
- Promotion of small and medium-sized enterprises.

3.4. Convertibility and “De-industrialization” (1990-2002)

In 1991, the Convertibility Plan was launched. As an attempt to control inflation, it pegged the local currency at a fixed exchange rate of 1 to the U.S. dollar, at which the Central Bank was obligated to convert currency (it will be more detailed further on). These new policies achieved economic stability with low inflation, it fell from 1,344% in 1990 to 84% in 1991, and to international levels by 1992. Foreign investments were attracted producing a GDP growth but, in contrast, industrial participation rate in GDP declined. For instance, between 1995 and 1999, while Argentine GDP increased an 82.55%, its industrial participation decreased from 21.29% to 19.2%, respectively. Economic stability generated an atmosphere in the Argentine population of welfare, which many Argentines interpreted as a disincentive to work, because of this, many factories and industrial establishments were closed. Industries also broke because of the cheap products that were being imported from China. (Rafael Di Tela, 2001)

The economic policy under the Convertibility plan believed on the self-regulation of the market. Accordingly, barriers to trade were removed (export taxes, import duties and most quantitative restrictions) and the free flow of cross-border capital lead to the opening of the Argentine economy. The government encouraged the entry of foreign firms into the market as it allowed free entry and exit of portfolio capital and investments.

Foreign competition, a result of the indiscriminate opening of imports, a change in relative prices resulting from the application of 1 to 1 parity against the dollar and the modifications in tariffs led to the destruction of large sectors of the industry that were not able to compete with import prices, specially the textile.

The rapid pace of the Convertibility Plan came to an end with the Tequila crisis⁷ that took place in Mexico, 1995, and caused massive withdrawals of bank deposits. Bank

⁷ The Tequila crisis was triggered by the lack of international reserves in Mexico. This led to the devaluation of the peso that caused effects such as inflation, high interest rates, economic activity collapse, local and foreign currency debt services increased and banks collapsed. The price of the dollar increased nearly 300% immediately, causing bankruptcies of thousands of companies, unemployment and many debtors were prevented from paying their debts.

deposits which had grown at an average annual rate of 57% between 1991 and 1994, declined at an annual rate of 62% in the first three months of 1995 (Martin Uribe, 1996). Banks had to stop new loans in order to fulfill its depositors' withdrawals and entered a liquidity crisis that led to a rise in interest rates. Argentina received an emergency loan from the International Monetary Fund (IMF) to put an end to the situation.

In 1999, Fernando De la Rúa won the elections. His mandate was marked by a rapid economic deterioration. Unemployment, a result of the deindustrialization rose to 19% (La Nación, 1999), factories remained closed and companies continued to fail. Starting in 2000, industrial activity began to fail and so did its contribution to the country's GDP. De la Rúa resigned on December 21, 2001, and for the following two weeks, Argentina was ruled by seven different presidents. On January 2002, Eduardo Duhalde was chosen President and just one day after his election, Argentina declared its default when it was not able to pay a lira-denominated bond of US\$28 million.

3.5. Kirchnerism (2003-2015)

The Kirchnerism is a Peronist political movement, founded in 2003, which brings together the main ideological postulates embodied in the governments of President Néstor Kirchner (2003-2007) and Cristina Fernández de Kirchner (2007-2015).

3.5.1. *Presidency of Néstor Kirchner (2003-2007)*

The period of 2003-2007 was a stage of great advance of the Argentine economy, recording positive rates of annual growth throughout the years. Productive performance was energized due to the improvement in private domestic expenditure (consumption and investment) and exports.

On May 25, 2003, President Néstor Kirchner took over as president when the country was still suffering the consequences of a serious economic and social crisis triggered by the 2001 default. In the middle of the year, almost 60% of the population lived below the official poverty line, the unemployment rate stood at 17.4% and

production was paralyzed (The World Bank Group). Kirchner initiated a government that had as protagonist the public sector. Positioning himself as “Man of the People”, he tried to maintain peaceful relations with the poorest sectors of society⁸. When President Kirchner took the office, the richest 10% of the population accounted for 39.3% of the national income, and only 0.7% was left to the poorest 10%. (Pierre Salama, 2012)

By the end of 2003, the economic recovery that was meant to be progressive turned into a boom, while economic analyst expected a growth of only 2% in 2003 (Rafael Di Tela and Fernanda Miguel, 2015), the economy grew at 8.8% (The World Bank Group). This outstanding behavior was due to two causes. On the one hand, the growth of commodity prices, whose index⁹ experienced the first upward trend since hitting its lowest level in the second quarter of 2002. On the other hand, the restoration of public confidence was very important. President Kirchner promoted people’s trust by announcing a 50% increase in the minimum wage (paid by both the private sector and the government) and by reopening the cases against the previous military leader which had committed human right violations during their mandate. (Rafael Di Tela and Fernanda Miguel, 2015).

In 2004, Argentina kept on growing and fiscal revenues continued to increase. The government was being managed effectively and achieved a budget surplus from 2.3% of GDP in 2003 to 3.9% in 2004. The government increased export taxes, not only to benefit from its collection, but to keep inflation stable. Lowering the net price of exports would make goods more accessible to domestic buyers. Taxes of unrefined petroleum were set at 25%, grain and soy items at 20% and milk products at 15% amongst others. (Rafael Di Tela and Fernanda Miguel, 2015)

⁸ For instance, he continued with Duhalde’s Heads of Household program, “El plan de jefes y jefas de hogar”, by which an economic help was granted to families with a kid under 18 years old or a kid with a disability.

⁹ Index of Commodity prices: an index that tracks a basket of commodities to measure their performance. In this case, the index includes the prices of the most important commodities for Argentine exports: maize, wheat, soybeans, soybean oil, soybean meal, beef, crude oil, metals, primary aluminum and copper.

On November 5, 2005, President Néstor Kirchner participated in the refusal to the Free Trade Area of the Americas (FTAA), led by U.S. President George W. Bush, known as “No to the FTAA”. The FTAA proposed the creation of a free trade zone from Alaska to Tierra del Fuego, with the elimination of tariff barriers, liberalization of services, intra-zone foreign investment protection agreements, and limitation of state capacity to guide public procurement. It would have been the largest free trade area in the world, with a market of nearly 800 million people, with a very favorable framework for the United States, which was the country pushing for its formation. Some of the reasons for Nestor’s opposition and that affected the manufacturing sector are as follows:

- The effects of the free importation of goods threaten to condemn the local industrial sector to a complete disappearance, thus deepening the high unemployment rates that had already punished the country years before.
- The elimination of tariff barriers, the prohibition of any state policy aimed at favoring the use of national goods or privileging in any way local or sectorial development, among other things, threaten abolish medium and small companies as well as to promote the deindustrialization of the economy.

Because in the years prior to 2005 the economy had experienced a very accelerated growth rate, almost eliminating the difference between capacity and usage (the “output gap”)¹⁰, Argentina’s inflation accelerated and by the end of December 2005, it had reached 11%. (The World Bank Group)

During 2006 and 2007, growth in the manufacturing sector continued, presenting an annual growth of 9.1% in 2006 and of 7.53% in 2007. (The World Bank Group)

In 2007, Nestor contributed to the Latin American unity and integration by promoting the creation of the Union of South American Nations (UNASUR). It is an international organization that aims to build a South American identity and citizenship,

¹⁰ Difference between the actual output of an economy and the maximum potential output of the economy, expressed as a percentage of Gross Domestic Product.

as well as to develop an integrated regional space. It is formed by the twelve independent states of South America¹¹.

3.5.2. *Presidency of Cristina Fernández de Kirchner (2007-2015)*

At the end of his term, Nestor Kirchner was a respected man, known for his commitment to Argentina and his actions, which had managed to get Argentina forward. Because the Argentine Constitution does not allow a president to return to being a candidate if he has already had the mandate for two consecutive terms¹², the Kirchners decided for Cristina to run to preserve the ability of Nestor to run again in the future without restriction. Thus, the turn of Cristina Fernandez de Kirchner arrived on October 28, 2007, after the four years of mandate of her husband.

One of the first measures of Cristina Kirchner was the creation of the Ministry of Science, Technology and Productive Innovation. It was created in December 2007 and its mission was to guide science, technology and innovation towards strengthening a new production model that generated greater social inclusion and improved the competitiveness of Argentinian economy.

The government was soon shaken by major commotions. First, the conflict with the countryside that took place in March 2008 and that has already been explained in the *2.1.1 Agriculture* sector. Second, the international crisis in the second half of 2008 and most of 2009¹³.

The crisis began to impact Argentina at a very bad moment, due to the severe drought that affected the country with production losses in key export sectors¹⁴ and to the internal instability provoked by the previous stated conflict between agricultural

¹¹ Brazil, Argentina, Colombia, Venezuela, Chile, Perú, Ecuador, Uruguay, Bolivia, Paraguay, Surinam and Guyana.

¹² However, if only one is served, he can opt for the office as many times as he wants

¹³ The financial crisis of 2008 was directly triggered by the collapse of the housing bubble in the United States in 2006, which triggered the so-called subprime mortgage crisis in October 2007. The repercussions of the mortgage crisis began to manifest extremely seriously since early 2008, first infecting the US financial system and then the international financial system, resulting in a deep liquidity crisis, and indirectly causing other economic phenomena such the stock market crash of January 2008 and the global stock market crash of October 2008 and, overall, an international economic crisis.

¹⁴ Explained in *2.1.1 Agriculture* sector.

based regions versus Cristina Kirchner's government. In these years, Argentina came back to live on the savings and the external production. From there, it continued to deepen, becoming not only a flight of capital, which would rise to \$10.9 billion (Lucía Gallo, 2010), but a great difficulty in importing all the necessary products. For example, merchandise imports declined from \$57.46 billion to \$38.79 billion in 2008 and 2009, respectively. (The World Bank Group)

Given the necessity to address the crisis in such conditions, Argentina developed an "Anticrisis Plan" in November 2008. The plan was based on a series of fiscal measures to promote investment and employment through public spending. For example, benefits for those who brought their capital from abroad to invest locally in infrastructure or the ambitious \$21 billion public works plan to sustain the economy and double the number of jobs in the sector. However, the lack of consumer confidence led to a decrease in domestic spending 57.48% of GDP (The World Bank Group), which normally accounted for more than 65% of GDP. This raised doubts about the plan as some believed that the problem was not the public spending but the private spending's contraction. Argentina was facing a situation in which most of the economist started to think that zero growth was an optimistic number of growth rate given the circumstances. (Damián Wroclavsky, 2008)

Another example of measure was the "Argentina Trabaja" program, launched in 2009. It was created under the motto "Es Argentina trabaja, no Argentina descansa" (Argentina works, It does not rest) and it was a plan to generate employment in the more depressed neighborhoods and to carry out basic infrastructure works in municipalities. The program involved approximately 150,000 workers. (Sandra Guimenez, 2011)

Thanks to mix of the new policies and institutions, Argentina gradually overcame the crisis increasing the total GDP by 27% in 2009 of \$334.49 billion to \$425.92 billion in 2010, according to The World Bank Group.

In October 2010 Néstor Kirchner died from a heart attack and the couple's plan to take turns faded away. Presidential election took place in December 2010 and the country, supporting the grieving widow, chose Cristina Fernández again as their President.

The years 2010 and 2011 presented very alike situations in economic terms. After the recession in 2009, Argentina grew similarly in 2010 and 2011, with an increase of 27% and 26% respectively (increase calculated with data provided by The World Bank Data). Most manufacturing sectors regained pre-crisis activity levels. Basic metal manufacturing expanded 22% and textile production, 15% (CEPAL, 2011). In contrast, petroleum refining and paper and paperboard were examples of segments of industry that did not experience growth at all or failed to recover pre-crisis levels.

Just a week after the President was reelected, she announced a series of currency controls aimed to stem capital flight and preserve the Central Bank's dollar reserves. The established currency controls limited the power to buy or sell foreign currencies, especially American dollars. This drove many Argentines to keep their savings in dollars as a hedge against inflation. Because the rules seemed unclear and opaque and their implantation was onerous, many currency-exchange houses closed.

In June 2010, the President announced the Bicentennial Productive Financing Program, with the aim of financing productive investments that generated employment, substituting imports, encouraging regional development and increasing exports and competitiveness. She ensured that 10,000 million pesos would be invested for SMEs and large companies. (Télam, 2014)

In October 2011, access to dollars became more complicated due to the introduction of more restrictions by the government. The President implemented the "Cepo Cambiario" in November 2011, a measure that restricted the sale of dollars in the country. Also, purchases made abroad with credit cards payed an additional 15%. These restrictions also had an impact on the real state sector, where transactions declined a 34% in the first seven months of 2013. (Rafael Di Tela and Fernanda Miguel, 2015)

Commodity prices experienced a drop during 2014 and consequently, Argentina's income from exports was reduced by \$4.5 billion relative to 2013 (Rafael Di Tela and Fernanda Miguel, 2015). Modifications regarding laws of industrial products also took place. Some sectors experienced advantageous reforms, such as the automotive industries whose quota was increased. In contrast, other sectors were less favored. However, what these industries had in common was the government began to require them to report excessive information about their transactions. Now, companies not only had to provide annual projections in dollars of exports and imports, but also had to present information on sales, financing, investment projects and profile of the company and the workforce, among others. This requirement increased pressure from the government to the companies.

4. BANKING AND FINANCE

Before explaining the main events that marked the history of banking and finance in Argentina, it is important to elaborate on the oil crisis that took place in 1973 and consequences of it in the development of Argentina's financial sector and its external debt.

As its name suggests, the oil crisis of 1973 began on October 16, 1973, following the decision of the OPEC and Organization of Arab Petroleum Exporting Countries¹⁵ (OAPEC) to embargo oil exports to countries that had supported Israel during the Yom Kippur war between Israel against Syria and Egypt. The embargo included the United States and its Western European allies, industrialized countries that were heavily dependent on oil export from Arab oil producers. OPEC members also began a series of production cuts that led to an increase of the world price of oil. In 1973, the price of the barrel increased from \$3.5 to \$5.5 (Miguel García and Gerardo Ronquillo, 2005), and reached \$11.56 a barrel in January 1974 (Michael Corbett, 2013). The increase of oil prices generated inflationary spiral and lower production in oil importing countries. Most of the importing countries reacted with austerity policies, reducing public spending and fomenting savings. In contrast, countries of the Middle East took control of a commodity and soon began to accumulate an enormous hoard of cash that the press referred to as petrodollars.

In March 1974, the embargo was lifted but, as it will be explained, the consequences of the crisis spread throughout the world until 1980s. Although the embargo was not directly applied to Argentina, due to its relationship of dependence with the affected countries, it was also influenced.

¹⁵ At the time, the OAPEC included Saudi Arabia, Algeria, Bahrain, Egypt, Syria, Tunisia, United Arab Emirates, Iraq, Kuwait, Libya and Qatar.

4.1. The military dictatorship (1976-1983)

Argentina's financial system was exposed to numerous changes during the 1976-1983 period. The economy's uneven patterns of growth and the frequent change of governments gave rise to pronounced shifts in financial policy. During this period, Argentina had seven different ministers of economy.

As it has previously been mentioned in other Sections, beginning in 1976 Argentina was ruled by a military dictatorship. The coup, that took place in March 24, 1976, was a response to the economic chaos that Argentina was experiencing the prior year, 1975. The country was marked by a public deficit that reached a 17% of its total GDP, there was a critical situation in its balance of payments, an external debt of \$10 billion and an annual inflation that exceeded 400% (Noel Maurer and Aldo Musacchio, 2006).

To end this situation, especially the high inflation, the military left the management of the economy in the hands of Alfredo Martínez de Hoz, who served as Minister of Economy until March 29, 1981.

4.1.1. *The Financial Reform of 1977*

Martínez de Hoz and his team thought that until then the government had had a very interventionist behavior: regulating economic activities, arbitrating labor relations, favoring the business sector through preferential tariffs and subsidies...They blamed this type of practice of having caused such a high inflation. Hence they adopted the political-economic theory of the neo-liberalism, which was based on the limitation of the state's intervention in legal and economic matters.

Accordingly, they announced the Financial Reform of 1977, a policy of financial liberalization more focused on deregulating than regulating. Its aim was to create a capital market that would appeal to foreign investors to reactivate the Argentine

economy. Also, Martínez de Hoz thought that increased exposure to domestic and foreign competition could foster the overall efficiency of the economy.

Measures of this reform were:

- Interest rates were freed and left to be defined through supply and demand, resulting in high interest rates,
- control of public expenditure,
- Freezing of workers' wages,
- restrictions on international capital movements were eliminated,
- and financial institutions were given complete freedom to expand geographically and open new branches.

The Reform 1977 wanted to stop manufacturing from being the sole core activity of the economy and, instead, tried to facilitate the shift from industry to finance.

Indeed, Martínez de Hoz's reform was reactivating the Argentine economy. That year, total GDP had an annual growth of 6.934% (The World Bank Group) and exports experienced a growth of 50.7%, reaching \$5,610 million, according to the BCRA. This favorable evolution in exports was basically caused by the change in trade policy as the disincentives for exports were taken out. In contrast, imports remained relatively flat at \$4,100 million. Thus, the balance of payments reacted in a favorable way, closing the year with a surplus of \$1,510 million (Guillermo O'Donnell, 2008).

At the same time, the world was undergoing the consequences of the oil crisis caused by the previously mentioned conflict between the oil-exporting countries and the United States and its allies. By this time the embargo had already been lifted and the increase in the price of the oil barrels continued. In 1977, the price of a barrel of crude was of \$14.40 (Tim McMahon, 2015). Thus, oil-exporting countries had significant surpluses of petrodollars (it is calculated that by 1980 the surplus was of approximately \$90 billion (Pierre Terzian, 2017)) that were channeled by the banks to oil-importing countries, especially to banks in the United States, Japan and Europe. Martínez de Hoz's model of open economy encouraged the public and the private sectors to borrow

heavily in these international financial markets. Moreover, foreign currency-denominated loans were extremely attractive as they could be acquired with a very low interest rate, of approximately 4%.

The public sector used these loans to make adjustments in the balance of payments and increase the reserves of the Central Bank, which at the end of the year reached \$4.048 million, a considerably larger amount than the \$1,812 million at the end of 1976 (Guillermo O'Donnell, 2008). The economy was expanded with external funds coupled with large public expenditures. The total public debt in 1978 equaled \$8,127 million. (Mario Rapoport, 2017)

As for the private sector, the money obtained from its debt overseas was not all used to fund production expansion. A large portion was directed to financial speculation. Companies preferred to borrow money abroad at a low interest rate and then invest in pesos in Argentina where local interest rates were exaggeratedly high. In October 1977, they reached 135% (Rio Negro Diary). At the end of the year, private external debt of \$3,635 million. (Mario Rapoport, 2017).

The massive indebtedness of the Argentine state was justified by the economic leaders of the dictatorship and by the IMF, as a way to increase their reserves in foreign currency to support a policy of economic opening. The IMF's support allowed Argentina to improve its international credibility in the eyes of the main industrialized countries, especially the United States.

Despite all the achievements the Reform had, it did not meet its main objective, which was reducing the inflation to normal levels. Although inflation rate decreased to 176% in 1977 from 443.97% in comparison to the previous year, it was still high and sporadic. (The World Bank Group)

4.1.2. *La Tablita Cambiaria, 1978*

Martínez de Hoz's commitment to stabilize the inflation was very strong and, in 1978, he did another attempt and proposed a measure to solve the problem, the "Tablita". It consisted of a programmed devaluation of the peso based on a conversion table ("tablita") that tended to a stable exchange rate in the near future, it contained the devaluations from January, 1978 to August, 1979.

What Martínez de Hoz did not expect was the speculative capitals taking advantage of the known exchange rates. What happened was that, once again, companies made money from the difference in the interest rates. Foreign currency debts were converted into pesos to be deposited in the short term in Argentina. Once the interest had been obtained, and thanks to the overvaluation of the currency, the conversion to dollars was then made to transfer the funds. The difference was that, this time, thanks to the "Tablita", companies knew when the next devaluation was going to happen and of how much it was going to be, so they took the obtained surplus abroad before the new devaluation occurred. This form of speculation received the name of the "bicicleta financiera" ("financial bicycle") and the period was known as "plata dulce" ("sweet money"), referring to the easy way of making money. The motto "deme dos" ("give me two") became typical of the time. It was the phrase used by the middle-class Argentines when they began to travel abroad and started buying things in pairs.

All in all, the implementation of this measure caused financial savings being primarily in the form of short-term deposits with a maturity of 30 days or less, private sector firms becoming highly indebted in terms of both peso and the United States dollar and a constant leakage of capital. It only managed to decrease inflation by less than ten percent, but annual inflation was still higher than a 100%. Also, there was shocking increase in private external debt of 110%, reaching \$9,074 million in 1979. Public debt also increased but in a more moderate way; it grew nearly a 20% (Guillermo O'Donnell, 2008).

In 1979, once the eight months of the “Tablita” were over, the government shifted to a fixed nominal exchange rate as well as introduced various fiscal policies and wage controls designed to contain inflation that failed. Thus, the real exchange rate appreciated rapidly and left the peso seriously overvalued. In consequence, imports increased and local industries were left to fail. The situation became unsustainable.

4.2. From the Military dictatorship to Alfonsín

The late 1970s and early 1980s was a difficult period for the international financial markets. Real interest rates were high and most industrial countries were in deep recessions. In the United States, the Federal Reserve increased the interest rates. International credit became expensive and scarce for Argentina, making it difficult to obtain funds and facing the payment of higher interests. Thus, capital flight increased, and foreign reserves decreased by more than \$2 billion (Rafael Di Tela and Ingrid Vogel, 2001).

Roberto Eduardo Viola became president on March 29, 1981. Under his presidency, there were five Ministers of Economy as Viola did not want to put someone powerful in charge of that portfolio in order to avoid presidential authority being questioned or eroded. Of the five men in charge, Lorenzo Sigaut was the one who stood out. On April 1, 1981, as an incentive to agricultural and industrial production and to discourage speculative movements of capital, Sigaut announced a 30% devaluation of the peso against the dollar (Klaus Friedrich Veigel, 2009). He also tried to reactivate the public finance by establishing export taxes, raising public tariffs, and freezing the salaries of the public employees. At the beginning, his program seemed to be effective as at the end of April reserves had risen by more than \$1.5 billion (Klaus Friedrich Veigel, 2009). However, the inflation continued at 104.48%. (The World Bank Group)

The Argentine military embarked upon a surprise invasion of the Falkland-Malvinas Islands on April 2, 1982, an armed conflict between the Argentine Republic and the Great Britain. It did not last long, by June 14, 1982, the U.K. had quickly repelled the assault. However, it disturbed the Argentine economy as foreign investors lost even more confidence in the country and withdrew their funds. Consequently, the government had to suspend payments on its external debt and the private foreign debt ran out of external source of refinancing. Bankruptcy of large parts of the private sector was just around the corner.

The administration that took over in June 1982, under the mandate of Reynaldo Benito Bignone, found the Argentine economy at the edge of the abyss. A severe financial and foreign exchange crisis about to explode, a growing public sector deficit that caused a rising inflation and the consequences of the Falkland-Malvinas Islands' war. To address the situation, the then President of the Central Bank, Doming Cavallo, introduced a financial reform that refinanced the peso indebtedness of the private sector on a long-term basis at reduced interest rates, promoted medium-term and long-term savings, and attempted to improve the overall efficiency of the banking system. Also, the government increased the legal reserve requirement on deposits from 15.5% to 100% in order to improve the Central bank control over the money supply and to finance the private sector debt. (Bernhard Fischer and Peter Trapp, 1985)

If 1982 had not yet been a complicated year, in August began the so-called "Lost decade" for Latin America's development, the most traumatic economic experience that Latin America has undergone. On that month, Mexico declared the temporary moratorium on its foreign debt. At the same time, several countries that were also experiencing difficulties, which were expressed in arrears in payments and massive outflows of financial resources, were subject to strong tensions as commercial banks reacted to Mexico's default by reducing new loans to Latin America. Because most their loans were short-term, these countries struggled to refinance their debt and soon had to suspend their payments threatening the solvency of major international banks, especially American banks. This is the case of Brazil and Argentina. At the end of 1982,

Argentina's external debt totaled \$40 billion. (Rafael Di Tela, Tarun Khana and Huw Pill, 2003).

4.3. Raúl Alfonsín's financial policy: The Austral Plan (1983-1989)

Following the disastrous defeat in the Malvinas War, the military junta called elections and Raúl Alfonsín became president on December 10, 1983. By then, Argentina was facing a series of difficulties:

- Inflation, which was of approximately 343.81% (The World Bank Group),
- The public debt, which was of \$45,079 million (Carlos Alfredo Rodríguez, 1989).
- a fiscal deficit that represented 15% of the country's total GDP (Bernhard Fischer and Peter Trapp, 1985).

Aside from internal difficulties, the external factors did not help. Interest rates were high and the price of Argentine export products decreased, which meant less revenue.

The new authorities maintained the system of regulated and indexed interest rates on medium-term and long-term deposits. In order to prevent small financial institutions and those in less developed regions from defaulting, Alfonsín established less rigid lending limits and lowered the legal reserve requirement.

In June 1985, the government announced the Austral Plan, named after the new currency it instituted and that became the legal tender of the country. One Austral equaled 1,000 Argentine Pesos. The main objective of the plan was to curb the rising inflation of the 1980s, which had climbed to uncontrollable levels, reaching 672.18% in 1985, as estimated by the World Bank Group. The plan involved structural reforms (cutting subsidies and deregulating and privatizing state industries), economic liberalization to control inflationary expectations (reduction in protectionist policies and freezing wages) and debt renegotiations. The program was initially very successful in stopping inflation. Inflation fell from 672.18% in 1985 to 90.1% in 1986. Unfortunately,

as most stabilization efforts in Argentina, the Austral plan also failed. After one year of relative stability, inflation rose again, reaching hyperinflation levels of 3,079.81% in 1989. (The World Bank Group)

4.4. The Convertibility Plan (1990-2001)

After several years of economic and financial difficulties, the first of April 1991, the Convertibility Plan was enacted. It refers to the various economic measures that were taken by the Ministry of Economy of the moment, Domingo Cavallo, during the presidency of Carlos Saúl Menem, who became president on July 1989. The Convertibility Plan's main objective was to fight inflation, but it was also concerned free-market reforms like elimination of wage and price controls and trade liberalization.

The main measure, origin of its name, fixed the peso's exchange rate at par with the U.S. dollar, in this way the conversion between the two currencies was free. Trying to avoid inflation from increasing, the plan made it illegal for the central bank to increase the nation's monetary base or issue credit unless it had backing in U.S. dollars. Thus, the State could not be financed by the central bank anymore, it had to look for external capital. As part of the Convertibility plan, legal reserve requirements of bank deposits in local currency were reduced, while those deposits in foreign currency were increased, trying to stimulate transactions in pesos instead of currencies.

With this system, money supply became an exogenous variable, which means that the increase in the monetary base was subject to foreign currency inflows, it could not be controlled by economic policy. In this context, the peso was transformed into a voucher for a dollar, applied within national borders, acting exclusively as a unit of account. The other functions of money were satisfied by the dollar, as it was also made legal tender.

In addition to this major monetary overhaul, the government carried out a large number of privatizations. Between 1991 and 1994, about 90% of all state companies

were privatized (Rafael Di Tela and Fernanda Miguel, 2015). Privatizations were a way to balance the budget as public enterprises were generally losing money and its privatization entailed reduction of expenditure and generation of funds. In addition, buyers had the possibility to pay through debt securities, which reduced the external public debt and with it, future interests.

The problem of the Convertibility Plan was that, as it has already been mentioned, money to cover the imbalances could not be issued. Thus, the deficit led to the taking of new loans, which implied higher interest rates and, consequently, larger deficits. On April 7, 1992, Argentina joined the Brady Plan, which was a strategy aimed to restructure the debt incurred by developing countries with commercial banks, especially in the context of the Latin American debt crisis. The plan allowed the restructuring of the debt with private banks to 15 years for interest arrears (about \$8,300 million) and 30 years for principal (about \$20 billion). These restructurings were collateralized by zero coupon U.S. Treasury bonds that matched the principal maturities of the government debt.

Overall, during its first years of implementation, the plan seemed to achieve its immediate objectives. The economy seemed to recover at a rapid space. (The World Bank data)

- Total GDP increased from \$189.72 billion in 1991 to \$257.44 billion in 1994, an increase of 36%.
- During the same period, inflation decreased from 171.67% to 4.18%.
- Foreign Direct Investment (FDI) in 1990 was of approximately \$35 million and in 1994 it reached approximately \$1,01 billions. It reached levels higher than those of the rest of Latin America and most countries in emerging world. (Index Mundi)

4.4.1. *First evidence of the weaknesses of the Convertibility Plan*

As the Argentine economy depended so much on external capital, problems began to arise when the international context became more unfavorable. The first crisis that hit the Convertibility Plan was the Mexican financial crisis, also known as the “Tequila Crisis”. On December 1994, the Mexican Central bank ran out of dollars and was forced to float the exchange rate. The peso devaluated its value, from about 5.3 pesos per dollar to over 10 pesos per dollar between December 1994 and November 1995 (Also Musacchio, 2012). Foreign investors, anticipating further currency devaluations, began to withdraw capital from Mexican investments. To discourage capital flight, the Mexican central bank increased interest rates but only ended accelerating the collapse of the economy. The central bank could not meet its debt obligations and left the government facing an imminent sovereign default.

As Argentina was seen as an emerging country similar to Mexico, inevitable distrust was also generated. The crisis caused a massive reversion of capital flows, a sharp rise in interest rates, a collapse of the stock market and a sacrifice of reserves in the attempt of saving several financial entities from bankruptcy. As previously explained, because banks did not have access to emergency funds from the Central Bank anymore, the capital flight resulted in a crisis of illiquidity. A loan from the IMF, for which Argentina received access to credits for \$7 billion, put an end to the run. (Javier Arnaudo, Luis Querol and Gustavo Pérez, 2003)

On May 14, 1995, Menem was reelected and announced a restructuring of the national financial system, focused on a concentration and an increase in banks’ foreign-ownership. In fact, 9 of the 10 biggest banks in Argentina were taken over by foreign banks.

During the 1990s three more external shocks outlined below took place and once more, they encouraged investors to distrust Argentina’s ability to overcome the recessive periods. History repeated itself. Capital outflows led to higher interest rates

and more progressive indebtedness whose perverse dynamic eventually led to default in December 2001.

- The Asian Crisis of 1997. A period of financial difficulty that gripped Asia and raised fears of a global economic disaster due to financial contagion. It started on July 2, 1997, with the devaluation of the Thai currency. Due to a domino effect, there were numerous devaluations in other nearby countries like the Philippines and Malaysia. One of the consequences was that international investors were reluctant to lend money to developing countries. Also, there was a reduction in the price of oil that caused a financial hardship in OPEC member countries and other oil exporters.
- The Russian Default of 1998. It was exacerbated by the decline in world commodity prices due to the Asian Crisis of 1997. Oil was one of Russia's resource to increase the government's revenue and its deep fall in the price had severe consequences.
- Brazil's currency devaluation in 1999. Russia's economic crisis crossed land and sea to contaminate Brazil. To try to stop the massive capital flight, there were a series of monetary policies including interest rates' increase. As of September 1998, reserves had fallen by more than \$50 billion. The government devaluated the currency, the Real, around a 30% in relation to the U.S. Dollar to curb the exit of reserves, attract capital and increase national exports. (Leonardo Lanotti, 2010).

After Menem's presidency, in 1999 Fernando De la Rúa became President. Once he and his team got to the office, they found the economic situation worse than they expected. Foreign debt reached an explosive figure of \$144,657 million, equivalent to almost 52% of GDP, which was of \$279,511 million. However, they decided to continue with the convertibility. (La Nación, 2000)

De la Rúa's economic team believed that the previous fiscal mismanagement was the cause of the country's economic problems and that to restore economic stabilization he had to address the public-sector deficit. Therefore, in 2000, he implemented an increase of taxes, known was the "Impuestazo" ("big tax"): the non-taxable minimum

income was lowered from 4,800 pesos to 4,020 pesos (La Nación, 2006). Also, on May 29, 2000, the government instated measures to cut \$1 billion in public spending (Rafael Di Tela and Fernanda Miguel, 2015). For example, state salaries were decreased. The adopted reforms during his presidency only aggravated the situation as Argentines had less disposable income to spend, fact that delayed the economic recovery. A lot of protests took place.

Near the end of the year, in December 2000, De la Rúa, his Minister of economy, José Luis Machinea, and international and domestic financial institutions negotiated a \$40 billion loan package (Rafael Di Tela and Fernanda Miguel, 2015). The government agreed to use this money to pay off debts and at the same time boost investor confidence. This would reduce country risk and, consequently, lower cost of financing for the Government and the private sector. The loan received the name of the “blindaje” which, according to the dictionary of the Spanish Royal Academy, means “to protect externally with various materials, especially with metal plates, things or places against the effects of bullets, fire, etc.”.

The new targets exceeded the governments capabilities and in early 2001, it became apparent that the operation was far from being productive. It increased mistrust, the measures deepened recession and the resources were directed to the capital flight. In February 2001, Argentina swapped \$4 billion in bonds that were due to mature soon for longer-term bonds. (Rafael Di Tela and Fernanda Miguel, 2015)

4.4.2. *Cavallo as Minister of Economy*

In March 2000, there was a strong rise of the country’s risk premium, which surpassed 1,000 basis points, a fall in international reserves by \$3.2 billion and a leakage of deposits by \$4.4 billion (Enrique Szewach, 2001). In this context, Minister Cavallo assumed the economic lead and quickly adopted emergency measures. The most important ones were the approval of a tax on financial transactions and the so-called Competitiveness Law. The former taxed the movements in current bank accounts and checking deposits in saving banks. The Competitiveness Law consisted of a delegation

of powers from the Congress to the Executive Branch. But it explicitly excluded the possibility of reducing public wages and pensions and the privatization of companies or state entities.

Despite these attempts to clean up image of Argentina, the perception of international financial agents was still that the country was not ready to meet its financial commitments in the future. The high external indebtedness, the low competitiveness and the strong fiscal imbalance were the main arguments used.

In these circumstances, the government announced, at the beginning of June 2001, a “Megacanje” (“Mega swap”), which extended the maturities of \$30 billion in debt but at a higher rate of interest, around 15% per year (Rafael Di Tela and Fernanda Miguel, 2015). The amount was significant and removed the risk of default in the short and medium term. However, in the longer term the problem of indebtedness was aggravated. The Argentine economy had to find a path of growth that allowed it to generate sufficient resources and demonstrate that it could recover its financial and fiscal solvency.

The government publically recognized that the fiscal deficit could no longer be financed and introduced, in July 2001, a “zero-deficit” policy. The policy was aimed to end deficit spending through measures like a reduction in pensions and state salaries of up to 13% (Rafael Di Tela and Fernanda Miguel, 2015). The government was then able to negotiate a new agreement with the IMF and that was approved in the last week of August 2001. It was essentially a support for a total amount of about \$8 billion, of which \$5 billion were received immediately. (Rafael di Tela and Ingrid Vogel, 2002)

At the end of 2001, in a context of sudden fall of deposits and monetary reserves, the authorities arranged a series of measures aimed at avoiding or at least hindering both the outflow of foreign exchange from the country and the withdrawal of cash from financial institutions. The set of adopted measures was called the “corralito” and are as follows:

- Set a limit of \$250 per week per person for cash withdrawals,

- Forced banking through the use of credit cards, debit cards, checks and bank transfers within Argentina,
- New bank loans could only be nominated in dollars,
- Control of payments and transfers abroad and limitation to the exit of the country with dollars in cash.

Although the “corralito” managed to decrease capital flight, it had a negative impact on economic activity because it paralyzed the daily buying and selling operations.

Soon after, on December 5, 2002, the IMF suspended the payout of funds as the country was not keeping up with the condition they asked for, which was the continuation of the austerity measures. Consequently, on December 17, the government announced a new plan with large spending cuts. The intention was to cut spending a 20%. This, added to the record of 16.4% of unemployment since 1990, caused a discontent in the population that did marches to the presidential to show their rage. (Rafael di Tela and Ingrid Vogel, 2002)

De la Rúa was forced to resign on December 21, 2001. The following two weeks, Argentina had five different presidents, until January 2, 2002, when Duhalde took the power.

4.5. Default and Collapse of the Convertibility Regime

The year 2001 ended with a very unstable political and economic situation. The real GDP growth was negative -4.5%, the foreign debt was of \$148.5 billions and the international reserves equaled \$25.2 billions (Huw Pill, 2002). On January 3, 2002, just one day after Duhalde had become president, Argentina defaulted on its foreign debt:

- \$81.8 billion in private debts, debt held by private investor globally (Rafael Di Tela and Fernanda Miguel, 2015),
- \$6.3 billion to the Paris Club (Michael H. Moffet, 2016), an association of creditor governments working to reorganize sovereign debt; and
- \$9.5 billion to the IMF. (Michael H. Moffet, 2016)

In reality, it was almost the formal recognition of a situation that had been dragging on for some time, when the international credit had been cut to the country.

In these circumstances, the new economic authorities launched a program, which established as basic principles the pesofication of the economy and the devaluation of the exchange rate. Pesofication was the chosen alternative against the full dollarization of the economy, while the correction of the exchange rate meant the end of the monetary Convertibility regime, which had governed during the previous decade

The currency devaluation was set, with a new fixed parity of 1.40 pesos for each U.S. Dollar for commercial operations, and allowed a dual exchange rate to float for other transactions. Finally, in the face of external pressure and the constraints of the IMF, the authorities decided in February to move towards a single market and with free flotation. The exchange rate increased faster than expected. On October 8, 2002, the price of the dollar reached 3.76 pesos and settled at the end of the year at 3.39 pesos. (Rafael Di Tela and Fernanda Miguel, 2015).

The devaluation caused:

- A rise in poverty due to the rise in the price of trade-ables (like food), which nearly doubled. In 2002, according to the World Bank Group, the unemployment rate increased to 19.6% and it was reported that nearly a 54% of the nation was living under the poverty line. (Rafael Di Tela and Fernanda Miguel, 2015).
- A problem regarding debts. 70% of bank deposits and a 79% of loans were denominated in Dollars, but due to the pesofication they had to be converted at a depreciated exchange rate and therefore were increased. Duhalde established as a solution that all the debts superior to \$100,000 could still be converted to pesos with the 1 peso 1 dollar exchange rate. (Rafael Di Tela and Ingrid Vogel, 2004).
- A problematic situation for banks. There were depositors who had kept “dollar” accounts but now insisted on recovering their deposits adjusted by the new

exchange rate, allowing them to recover the initial amount of dollars they had deposited. The problem was that, those accounts had already been converted to peso following the new administration's policies, so banks could not comply. Duhalde's response was that public's bank deposits had to be converted at a rate of 1.4 pesos per dollar. In contrast, bank loans had to be converted at a one-to-one peso-to-dollar rate.

In 2003, Argentina's situation started to get a better (The World Bank Group):

- Inflation decreased from 25.87% in 2002 to 13.44%.
- Unemployment went from 19.6% in 2002 to 13.52%.
- The exchange rate relatively stabilized at around 2.8 pesos per dollar. (Rafael Di Tela and Ingrid Vogel, 2004)
- Consumer confidence was rising as the country risk premium was falling.

4.6. The Recovery

In 2003, with the month of April came new presidential elections. Now it was time for Néstor Kirchner to manage the country and he decided to do so with the economic team of Duhalde.

4.6.1. *Renegotiation of the debt*

President Néstor Kirchner carried out the largest sovereign debt renegotiation so far, of nearly \$100 billion. On September 22, 2003, based on the argument that the Argentine debt had exploded since the devaluation of the peso against the dollar, he offered a 75% "haircut"¹⁶ with no recognition of past-due interests. He assured that the country could only afford to pay 25% of the debt. He also argued that the offer was consistent with their target of a primary budget surplus¹⁷ of 3% of GDP. (Rafael Di Tela and Fernanda Miguel, 2015).

¹⁶ A "haircut" is a total reduction in the net present value of a debt obligation due to: (1) a reduction in the principal of the obligation; (2) a reduction in the interest rates; (3) an extension of the obligation's maturity.

¹⁷ The primary Budget surplus represents the amount of money that the government has available to make interest payments or pay down outstanding debt.

As it was to be expected, creditors did not accept Kirchner's offer. Instead, they demanded a "haircut" of no more than 40% and a full recognition of past-due interests. Argentina was not flexible regarding the reduction of the "haircut" but agreed to share a 10% of the growth of GDP above 3% between the increased interest payments and the amortization of the outstanding debt. No arrangement took place. (Rafael Di Tela and Ingrid Vogel, 2004)

After three years of continuous disputes, in 2005, Argentina enacted the Lock Law which prohibited the Argentine state from making arrangements to pay bonds that had not been exchanged. This law was seen by the government as an incentive for the bondholder to accept their offers.

In mid-January, 2005, the Argentine government proposed to the creditors the possibility of receiving 26% to 30% of the net present value of the original face value of bonds obligations. It was a "take it or leave it" offer, in other words, a one-time-only offer. Most of the bondholders, a 76.07% accepted the offer and the outstanding debt was reduced from \$81.8 billion to \$18.6 billion.

The following year, Argentina repaid the \$9.5 billion debt to the IMF. As for the debt owed to the Paris Club, in 2008 and 2010, the government announced that it would repay them, but in each case reneged.

In 2010, another attempt to end with the remaining outstanding debt was made. To do so, they had to suspend the Lock Law. Argentina's creditors agreed to new debt swap deal worth around \$12 billion. Now, the outstanding debt had been reduced to \$6.6 billions. With this new arrangement, 92% of all original debtors had now exchanged the original debt, but there was still a remaining 8% of holdouts.

This last group of holders, that was asking to receive a full payment, took Argentina to the U.S District Court, as the debt was governed under New York law. Argentina, even having lost several series of ruling, still refused to pay. In February 2012,

New York District Court Judge Thomas Griesa upheld a lower-court ruling that Argentina could not make payments on its restructured bonds unless it also paid back defaulted bondholders. The Argentine authorities said that they could not settle with the holdouts because if they did, the exchange bond holders with whom they had agreed in 2005, could sue for equal treatment by invoking the Rights Upon Future Offer (RUFO) clause, which had been part of the agreement in 2005. The RUFO is a clause used in certain contracts in which a party who has agreed to contractual terms, gains certain rights if other parties in future obtain better or different terms. Therefore, the exchange bond holders could also ask to receive their full payment, which Argentina could not afford to pay and decided to appeal.

By October 2012, Argentina lost its appeal, the U.S. Second Circuit Court of Appeals in New York confirmed the decision of Judge Griesa and by November, he reissued the injunction forcing Argentina to comply with payments. This announcement made Argentine bonds fall sharply as market perceived the risk that Argentina could default on its payments one more time.

By March 29, the Argentine government was forced to submit a proposal on how they were going to pay the holdouts. Argentina was offering to pay holdouts 20 cents on every U.S. Dollar of the amount owed. As it was to be expected, in April 2013, holdouts rejected the proposal, leaving a US appeals court to decide whether Argentina's proposal complied with the ruling that holdout creditors must be treated the same as investors who held its restructured bonds. In February 2014, Argentina again appealed to the US Supreme Court, asking it to reverse the lower-court rulings. The US Supreme Court rejected Argentina's appeal.

Alex Kiciloff, the Minister of economy of Argentina from 2013 to 2015, made public his decision not to negotiate with the holdouts and simultaneously deposited \$832 million in a New York bank to pay exchanged bonds. This was meant to put the American banks in a very tense situation since to distribute the money went against the ruling of the courts. In fact, they were told by the District Court to not distribute the payments unless the holdouts creditors were also paid. Argentina washed their hands

and said that because they had deposited the money in the banks, their creditors had been paid, but the court disagreed. The U.S. Supreme Court still ordered that Argentina had to pay the holdouts, amounting to a payment of \$1.5 billion dollars (John Hartley, 2014). Since the parties failed to reach an agreement, on June 30, 2014, Argentina entered a “technical” default on its restructured debt.

4.6.2. Argentina’s return to international trading

In December 2015, Mauricio Macri assumed the presidency and carried out the resumption of negotiations with the holdouts with a view to Argentina’s return to international trading and financial relations. This time negotiations took on a different approach and were initially marked by the willingness of the new government to pay.

Within a month of assuming, the Macri Government negotiating team met for the first time with Daniel Pollack, the court-appointed mediator. Following a relatively short period of negotiations in the New York courts, nearly 90% of the holdouts accepted Argentina’s proposal, to pay the debt with a 25% reduction, and Judge Griesa ordered his injunction preventing Argentina from paying other creditors to be lifted.

Finally, on 19 April a successful bond issue of \$16,500 millions enabled the country to cancel its debt to the holdouts in cash. On April 22, \$9,300 millions were paid to holdouts and the remaining \$7,200 were deposited in the Central Bank in order to finance the deficit of the public accounts. Following the lifting of the injunction, payment was made to the holders of debt from the swaps who had not received payments since June 2014, thus enabling Argentina to put the default behind it, which was reflected in upgrades to its credit ratings.

5. DOING BUSINESS IN 2017

The aim of this part of the project is to summarize the positive and negative points that someone who is thinking of starting a business in Argentina should have in mind. In order to do so, I have decided to use a SWOT Analysis (Strengths, Weaknesses, Opportunities and Threats).

5.1. Strengths

- Argentina continues to be a world leader in agricultural exports. The World Trade Organization estimates that it is the 10th top exporter country in the world. According to the WTO, in 2015, total exports of agricultural products equaled \$2.2 billion.
- It has a lot of important natural resources: fertile plains of the pampas, lead, zinc, tin, copper, iron ore, manganese, petroleum, uranium and arable land.
- Buenos Aires is one of South America's main trade hubs.
- Argentina has the second highest per capita income level in Latin America, after Chile. Additionally, the IMF expects per capita GDP to grow until 2022, when it is expected to be of \$19,464 per capita. In 2016, Argentina's GDP per capita reached \$10,051, in Chile of \$12,938 and in Mexico and Brazil, \$8,415 and \$7,447, respectively. (The International Monetary Fund)
- Among the Latin American countries, Argentina stands out for having expanded the number of its trading partners. It plays a central role in the world trade networks.
- Recovered good standing with IMF after agreement with holdouts and implementation of reform agenda by Macri, which has led to improved international relationships.

5.2. Weaknesses

- High inflation following the devaluation of the currency remains a substantial drag on consumer purchasing power. After Macri's election in 2015, he pushed the devaluation of the peso of as much as a 30% relative to the U.S. Dollar which led to an increase in inflation.
- Businesses face high labor costs as wages are rising fast to keep up with rampant inflation. In May 2016, the minimum wage increased a 33%, from 6,060 pesos to 8,060 pesos (\$572.40) per month. (Anthony Esposito, 2016)
- Two sovereign defaults since the turn of century have undermined investor confidence in Argentina's willingness to pay its debts, driving interest rates up.
- Uneven wealth distribution.
- High levels of perceived corruption undermine public trust in the police force. According to the global coalition against corruption, The Corruption Perceptions Index¹⁸, which scores countries on how corrupt their public sector is, has increased to 36 in 2016, being of 32 in 2015. It is a high number compared to Mexico, whose index is of 30, but not as high as Brazil or Chile, whose indexes are of 40 and 66, respectively. However, it is not a low number compared to other countries in the world.
- Even though subsidies for electricity are gradually being decreased, businesses enjoy low cost of electricity but this has led to a lack of investment in infrastructure resulting in problems with generation and distribution. Power shortages are frequent, particularly at peak times during summer months. Blackouts therefore seriously affect business activity in Argentina. The price of electricity is 8.819 US cents per kWh, one of the cheapest of the region. For example, in Rio de Janeiro, Brazil, the price is of 20.4 US cents per kWh and in Chile it is of 10.5 US cents per kWh. (The World Bank Group)

¹⁸ The Index is prepared by representatives of more than 100 countries. It is a politically non-partisan group.

5.3. Opportunities

- The Argentine economy has significant long-term growth potential due to its natural resource wealth and highly educated labor force.
- Advancements in natural gas extraction technology hold the potential to make Argentina's vast shale gas reserve accessible.
- Renewed openness to foreign investment will allow firms to reverse years of underinvestment in key sectors, including agriculture, power and energy.
- President Mauricio Macri will continue to improve the country's business environment through a series of regulatory and fiscal reforms.
- High potential of renewable energies.
- Cooperative development on research and technology.
- A surge in available capital will allow firms to expand in areas that had long been restricted by capital and price controls under the previous administration, including energy, manufacturing and real estate.
- Experts from the IMF predict that unemployment is going to decrease in the future. The unemployment rate for 2016 was estimated of 8.47% and it is expected to decrease until 2022, where it will reach the value of 6.1%.
- The manufacturing sector exports are likely to improve as firms leverage renewed access to foreign capital markets to invest in upgrading and expanding productive capacity, benefitting from a weaker currency that has bolstered export competitiveness. Additionally, a modest rebound in Brazilian economic activity will provide tailwinds to Argentine exporters, given that Brazil is Argentina's largest export market.
- Government revenues are expected to grow. Argentina's fiscal position is expected to improve through 2017, driven primarily by a strong rebound in economic activity. It is expected that rising investment and export demand will drive a recovery that will underpin robust government revenue growth in the coming years. Over the year, additional revenue will come from the implementation on August 1 of a tax program meant to encourage repatriation of undeclared assets held abroad. Individuals will be able to choose to pay a relatively small fine to invest on low-coupon government bonds.

- Debt Costs are expected to fall. Expenditure growth will be constrained as subsidies are gradually removed, for example subsidies on the price of electricity, gas and transport, as well as the reduction of total payrolls in the public sector. It is predicted by the IMF that the general government total expenditure in 2021 will have decreased to a percentage of GDP of 38.8%, while in 2016 it was of 42.23%. Argentina has been met with extremely positive investor interest, which will allow it to gradually refinance its debt obligations at more favorable interest rates.
- Argentina's sovereign credentials will strengthen over the coming years despite its fiscal shortfalls and rising debt load. The gradual narrowing of its fiscal deficit, coupled with its pro-investment policy orientation, will allow it to maintain investor interest over the coming years and likely benefit from credit rating upgrades²⁰.

5.4. Threats

- Inflation has increased in the last year from 28.4% in 2015 to 41% in 2016. (Coface, 2017)
- Currency weakness and slow progress on fiscal consolidation will continue to drive high inflation in the coming quarters.
- Government interference in markets is hard to predict.
- Strong concentration of exports on just a few agricultural products.
- Potential electrical energy crisis. Argentina presents a demand/supply imbalance. On the one hand, demand is not high enough because the population cannot pay the full price of the energy. On the other hand, the problem of supply is caused because there has not been enough investment to have a good structure of generation and distribution, which makes prices more expensive.
- According to the IMF, Argentina's current balance account is going to decline from -\$7.253 billions in 2016 to -\$16.599 billion in 2021.

²⁰ The system of rating securities was originated by John Moody in 1909. The purpose of Moody's ratings is to provide investors with a simple system of gradation by which future relative creditworthiness of securities may be gauged.

- Weaker external demand from key trading partners such as China, Brazil, and Venezuela will cap growth in the coming five years.

6. Conclusion

The first conclusion that can be drawn from the extensive study is that it is not possible to blame a single phenomenon, political leader, social class or an economic plan for the poor results and crisis over the course of Argentina. The Argentine decay was a slow process in which several negative economic and political elements created resistance to development and contributed to accelerating the country's misfortune.

Additionally, external phenomena such as globalization, the world wars, the global economic crises, among others, coupled with Argentina's strong dependence on other economies, have undoubtedly contributed to the decline of Argentina. For instance, in the agriculture sector, with the "Agro-export" model, Argentina became heavily dependent on the European Continent, especially on Great Britain. This exposed Argentina to the economic cycles of Europe, which entered in recession with the beginning of the World War I, affecting Argentina although not being involved in it. Another example of dependence was the Convertibility Plan. Fixing an exchange rate to another currency, like in the case of Argentina who linked peso to the US Dollar, provides stability and reduces inflation in the short term but, in the long term, can create worse imbalances. With this measure, the monetary policy of Argentina was directly dependent on the monetary policy of the United States and, of course, the dynamics of the US economy were not the same as the ones that Argentina needed at the time, so the system ended in failure.

However, all countries have resented international phenomena in a certain way and most of them have been able to overcome their effects. For this reason, it is opportune to think that, in the case of Argentina, internal phenomena were the ones that really held the country back. Therefore, it can be said that Argentina's failure was a product of both bad socio-economic government policies and the lack of institutions to create successful policies when Argentina need it a change, and possibly an electorate that could not distinguish between reality and golden promises.

Another conclusion is the importance of investing in productive sectors of the economy, sectors that can benefit the country in the long term. Argentina has received a lot of external capital throughout its history, but has not been able to guide the flow that enters to sectors that reactivate the economy. It has allocated a lot of capital to subsidies instead of creating a good infrastructure for roads, an energy distribution system.

As for the future of Argentina, I believe it has a lot of potential. The Macri government has taken the necessary or more obvious steps to make Argentina's economy competitive. For example, freeing the exchange rate or negotiating debt with holdouts. It is a very dynamic economy that, although it depends to a large extent on Brazil, has an agricultural and an energy sector that with the correct investment can become very important. Thanks to its recent opening to the world, a lot of capital is entering the country, so if Argentina has learned from its past experience, it should invest it productive sectors like the previously mentioned.

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