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This paper, in its entirety, can be found at:
<http://report.heritage.org/sr179>

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Abstract

Argentina ranked 169th of 178 countries in the 2016 Index of Economic Freedom, one of the worst performances in the world. That is a tragedy for the hard-working Argentine population. Steep declines have been registered in all of the country's economic freedom indicators, including control of government spending, labor freedom, and business freedom. Argentina is mired in a climate of corruption and economic repression. Severely hampered by state interference, the formal economy has grown increasingly stagnant as informal economic activity expands. Monetary stability is particularly weak and, despite extensive price controls on almost all goods and services, actual rates of inflation have surged. Argentina's investment profile has been badly damaged by monetary and fiscal mismanagement, rising protectionism, and expropriations during the Kirchner years. The 2001 sovereign debt default remains unresolved, economic growth has weakened, and poverty has increased. Capital controls have spurred capital flight. Argentina's new president, Mauricio Macri from the pro-free-market political opposition, took office on December 10, 2015. This Heritage Foundation Special Report explains how Argentina lost so much economic freedom—and what the new government can do to restore it. A good start will be to correct the many mistakes made by the previous government.

Argentina's economic freedom score in the 2016 *Index of Economic Freedom*—43.8 out of 100, its lowest score ever—placed it in 169th place of 178 countries measured.¹ Argentina also ranks near the bottom (27th) of the 29 countries in the South and Central America/Caribbean region. That is a stunning decline from its highest score of 74.7, which was recorded in the second edition of the *Index* in 1996.²

Since then, it has been downhill for Argentina. Steep declines have been registered in all 10 of the country's economic freedom indicators, including control of government spending, labor freedom, and business freedom. Argentina continues to be mired in a climate of corruption and economic repression. Severely hampered by state interference, the formal economy has grown increasingly stagnant as informal economic activity expands. Monetary stability

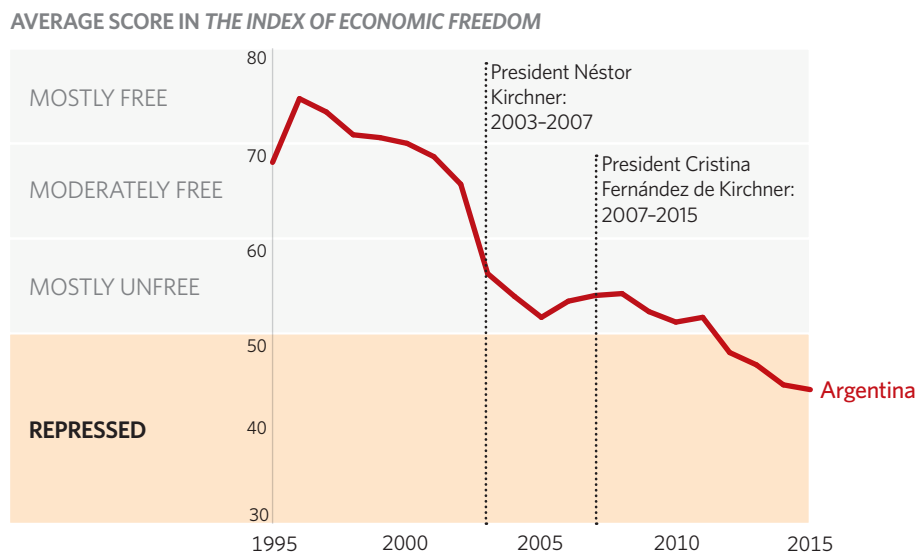
is particularly weak and, despite extensive price controls on almost all goods and services, the Economist Intelligence Unit reported that inflation surged to 40 percent in 2014³ (although the Kirchner administration repeatedly underreported it via the official Argentine statistics agency INDEC—El Instituto Nacional de Estadística y Censos de la República). Government interference in the financial sector further distorts price levels. In the past decade alone, Argentina's economic freedom score has dropped by nearly 10 points, plunging the economy into the lowest—“repressed”—category of the *Index*.

President Cristina Fernández de Kirchner of the Peronist Party, elected in 2007, re-elected in 2011, and preceded in office by her late husband Néstor, was constitutionally barred from seeking a third term. Argentina's investment profile was badly dam-

CHART 1

Argentina Falls Into “Repressed” Category in Economic Freedom

Argentina has steeply declined in economic freedom over the past 20 years. It now ranks 169th of the 178 countries measured.



Source: Terry Miller and Anthony B. Kim, *2016 Index of Economic Freedom* (Washington, DC: The Heritage Foundation and Dow Jones and Company, Inc., 2016), <http://www.heritage.org/index/download/>.

SR 179 heritage.org

aged by monetary and fiscal mismanagement, rising protectionism, and expropriations during the Kirchner years. The 2001 sovereign debt default remains unresolved, and a U.S. court decision in favor of “holdouts” who did not accept previous restructuring offers sent the country into default again in 2014. Economic growth weakened, and the poverty rate increased. Capital controls spurred capital flight.

Formerly the mayor of Buenos Aires, Mauricio Macri of the pro-free-market *Cambiamos* opposition coalition, won the 2015 presidential election because the Argentine public was fed up with the populism and poor performance of the Kirchner government. This *Special Report* explains how Argentina lost so much economic freedom—and what the Macri government can do to restore it. A good start will be to correct the many mistakes made by the Kirchners.

A History of Political Instability

Between 1880 and 1930, Argentina was one of the wealthiest nations in the world. Today, despite having the world’s 23rd-largest economy as ranked in 2014 by gross domestic product (GDP),⁴ Argentina is confronted with many challenges, including the continuing rise in inflation that creates difficulty in attracting

investors, a history of corruption, political uncertainty, debt defaults, and the nationalization of companies.

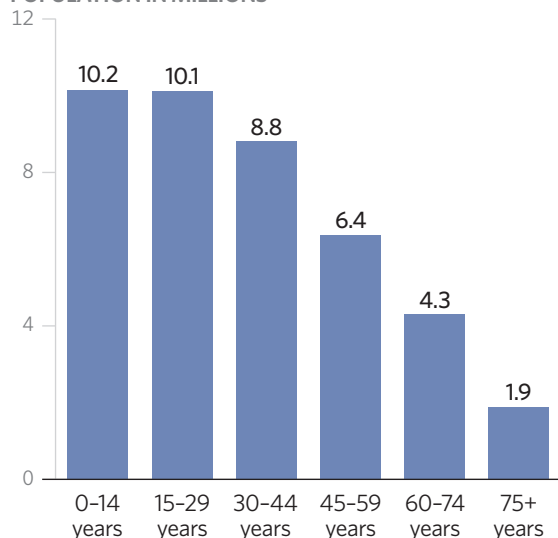
Argentina has vast natural resources, with over 375,000 square kilometers of arable land,⁵ significant gas and petroleum reserves, as well as sizable mineral deposits.⁶ Literacy is nearly universal.⁷ The United Nations Human Development Index, which measures education, life expectancy, and wealth, ranks Argentina 49th of 187 countries in the world.⁸ These advantages, coupled with Argentina’s youthful demographic (see Chart 2), would seem to make it an optimal destination for foreign direct investment (FDI).

Yet, Argentina’s economic performance has been inconsistent. (See Chart 3.)⁹ Argentina’s political history has swung between periods of constitutional democracy and military dictatorships. In 1943, a military coup led by Colonel Juan Domingo Perón ousted the constitutionally elected government. Perón, an early admirer of fascism, was elected president in 1946 based on his promises of higher wages and social benefits. Under Perón, presidential powers were increased and news media were suppressed.¹⁰ Ironically, in September 1955, another military coup forced him into exile. In subsequent years, multiple administrations attempted to deal with a deteriorat-

CHART 2

Argentina's Age Demographics

POPULATION IN MILLIONS



Source: United Nations Statistics Division, "Population by Age, Sex and Urban/Rural Residence," 2013, <http://data.un.org/Data.aspx?d=POP&f=tableCode%3A22> (accessed January 11, 2016).

SR 179 heritage.org

ing economy and social upheaval. In 1973, Perón was again elected president, but he died the following year. He was succeeded by his third wife, Isabel, who was subsequently ousted in 1976 by a military coup led by Jorge Rafael Videla, who ruled until 1981 and was succeeded by other military dictators until 1983. Videla's reign was marked by serious abuses during the so-called Dirty War, including disappearances and torture.¹¹

In a desperate attempt to survive politically, the military *junta* launched an ill-advised war in 1982 against Great Britain over control of the Falkland Islands. After a decisive victory for the British, then-President Leopoldo Galtieri was removed from power, setting the stage for a transition to democracy.¹²

The election of Raúl Alfonsín, who succeeded Galtieri in 1983, marked the first time that Peronism was defeated in a free election. Alfonsín put the former dictators on trial and set up a commission to look into the violence and repression of the 1970s. These trials were halted, however, after several coup attempts. Hyperinflation related to ongoing political instability soon followed, and Alfonsín was ejected from office just five

months shy of completing his term.¹³ In fact, neither of the non-Peronist elected presidents of Argentina has been permitted to serve a full term in office.¹⁴

Stunted Economic Development

Alfonsín was succeeded by a Peronist—Carlos Menem—who implemented a neo-liberal and market-friendly reform program. When he entered office in 1989, Menem initiated a program to privatize many state enterprises and to liberalize trade. In 1990, the economy experienced inflationary episodes. Menem responded with the Convertibility Plan of 1991. This plan simplified the tax code, enforced it better, and established an independent central bank; it also liberalized markets and encouraged privatization. Later, these reforms expanded to include pension reform, privatization of some provincial banks, and the creation of greater flexibility of the labor market.¹⁵

The most dramatic and consequential of Menem's reforms, the Convertibility Law, fixed the exchange rate between the Argentine peso and the U.S. dollar at one-to-one. Initially, the peg was tremendously successful, greatly reducing Argentina's very high inflation rate and stimulating growth. However, as budget deficits and sovereign debt rose, Argentina also began running a trade deficit. Eventually these factors, combined with an over-valued and steadily appreciating dollar-pegged peso, resulted in a severe decline in exports that were no longer priced competitively for global markets. Meanwhile, neighboring Brazil had devalued its "real" currency in response to the Asian financial crisis of 1997.¹⁶ That had the effect of increasing Brazilian exports, including to Argentina.¹⁷

After Menem's relatively successful tenure, there followed a series of presidents who had to navigate these increasingly choppy financial waters. The economic storm crested in late 2001, when President Adolfo Rodríguez Saá announced that Argentina would default on its debt. Saá was forced to resign and his successor, Eduardo Duhalde, ended the peso-dollar parity. In 2003, Néstor Kirchner was elected president with just 22 percent of the popular vote.¹⁸ Term limited, Néstor was succeeded in 2007 by his wife, Cristina, who dominated Argentine politics after Néstor's early death from a heart attack.

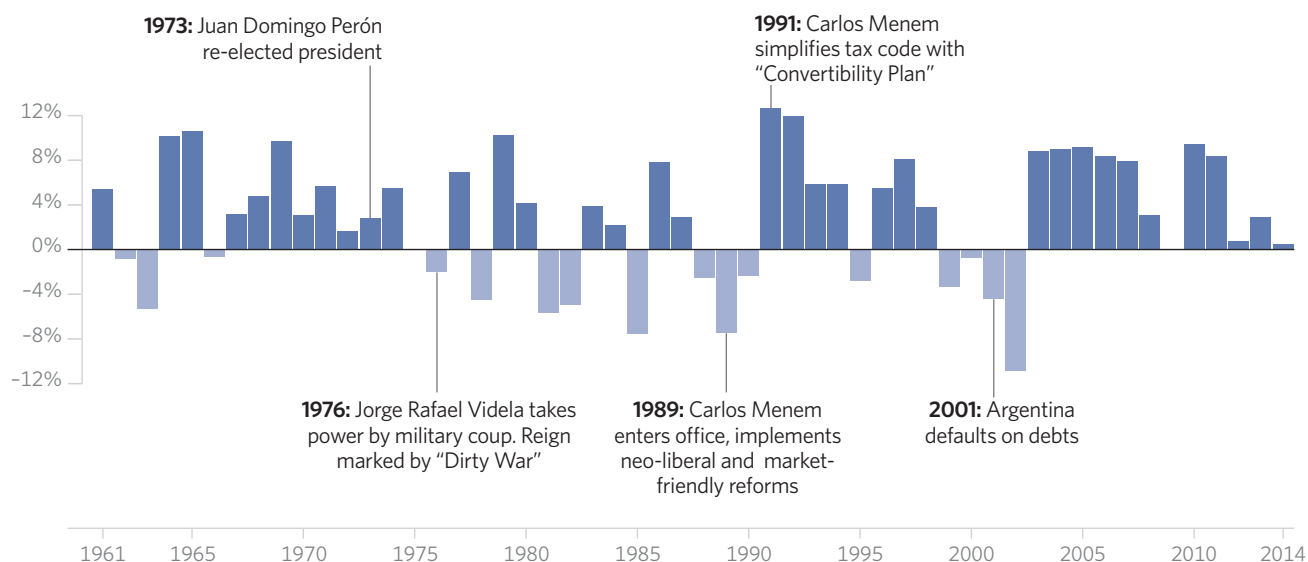
Growing Hostility to Western Values and Neoliberal Economics

Under President Cristina Fernández de Kirchner, Argentina strengthened ties to governments in the

CHART 3

Argentina's Economic Performance Swings Amid Political Turmoil

YEAR-TO-YEAR PERCENTAGE CHANGE IN GDP



Source: The World Bank, "Data: GDP Growth (Annual %)," 1961–2014, <http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG> (accessed January 8, 2016).

SR 179 heritage.org

region that are hostile to Western values and again challenged the right to self-determination of citizens of the Falkland Islands. The government's seizure of nearly \$30 billion in private pension funds in 2008, its failure to settle with a small group of "hold-out" creditors from the 2001 default, and its 2012 expropriation of Yacimientos Petrolíferos Fiscales (YPF), a subsidiary of Spanish oil company Repsol, all severely damaged Argentina's investment profile. In addition, Kirchner's centrally planned economic policies removed the independence of the central bank.¹⁹

A Lack of Economic Freedom. Argentina today is mired in a climate of economic repression. Severely hampered by state interference, the formal economy has stagnated and informal economic activity has expanded. Monetary stability has been particularly weak, and extensive price controls have been imposed on almost all goods and services. Government interference in the financial sector has further distorted price levels.

Weak Rule of Law

Argentina's scores on the *Index of Economic Freedom's* Rule of Law indicators have been in a steady decline for more than a decade due to the increasing

levels of corruption and attacks on private property rights that have accompanied growing state interference in the economy.

Transparency International ranked Argentina 107th of 175 countries in its 2014 Corruption Perception Index (see Chart 4),²⁰ which reported that the country's judicial system is increasingly vulnerable to political interference and that corruption is prevalent.²¹

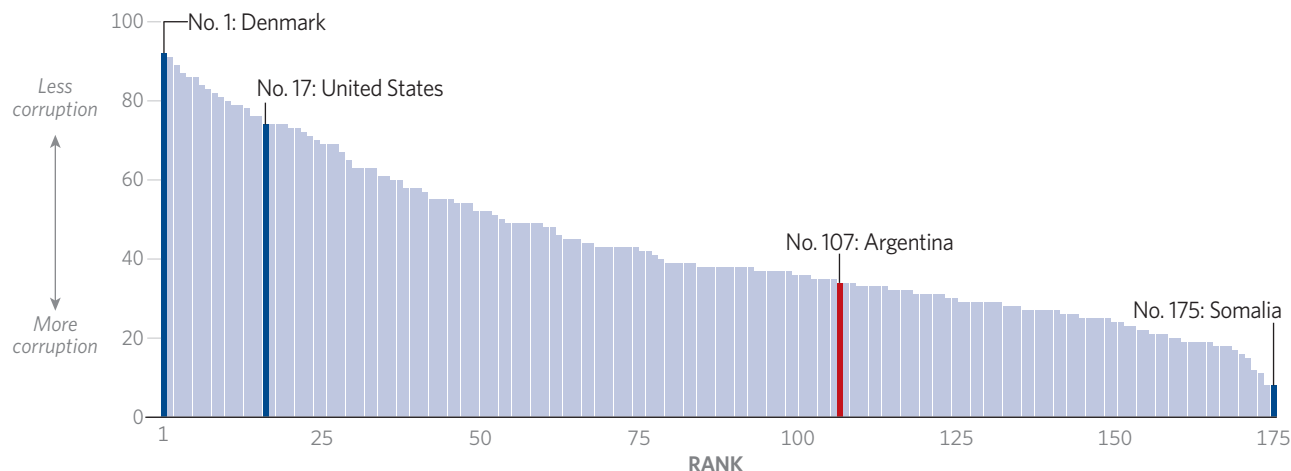
Not surprisingly, public confidence in the government and the judiciary reached record lows during the Kirchner years. Endemic corruption in Argentina's government and business climates became a major concern for the Argentine people and foreign investors, and figured large in the Macri victory. Between 1995 and 2013, polls indicate a 40 percent increase in perceived corruption. (See Chart 5.)²²

It is not hard to understand why the public became so jaded. While instances of corruption abound, here are some of the most notorious recent examples: In January 2015, Argentine federal prosecutor Alberto Nisman was found dead the day before he was to testify about official corruption.²³ According to press reports, businessman Lázaro Báez and others were allegedly involved in a scheme with President Néstor Kirchner to funnel money out of Argentina.²⁴ Fashion

CHART 4

Corruption Prevalent in Argentina, Ranks 107th of 175 Countries

CORRUPTION PERCEPTIONS INDEX SCORE



Source: Transparency International, “Corruption Perceptions Index 2013,” <http://www.transparency.org/cpi2013/results> (accessed December 17, 2015).

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designer Ralph Lauren admitted to paying bribes to Argentine officials between 2005 and 2009 to expedite the importation and customs clearance of his products.²⁵ Aerolíneas Argentinas, the national airline, paid \$4.3 million over list price *for each* of the 20 Embraer E-190 aircraft it purchased. The airline claimed that the price included spare parts and pilot training,²⁶ but suspicions of bribery abound because airlines typically pay below list price for aircraft.²⁷

External influences, such as narco-trafficking, have also negatively affected economic freedom. Argentina’s porous borders make it an attractive waystation for criminals transporting drugs to Europe. The fact that Argentines enjoy the right to visa-free travel to the European Union and many hold European passports facilitates these crimes, which are on the rise. Narco-traffickers even “infiltrated law enforcement agencies, politics and the judiciary,”²⁸ and the Kirchner government’s response was feeble.²⁹

Instead of taking steps to strengthen the rule of law, in 2013 the Kirchner government rammed legislation through the Argentine congress that weakened the judiciary, which was already vulnerable to corruption. While supreme court justices are appointed by the president with the consent of the senate,³⁰ under the 2013 law, the executive branch gained more influence through a new provision to mandate election of provincial judges.

Protection of intellectual property rights—copyrights, trademarks, and patents—has also been problematic. Since 1996, for example, Argentina has been on the U.S. Trade Representative’s intellectual property rights (IPR) “Special 301” Sanctions Priority Watch List, which is an annual review of the state of IPR protection and enforcement among U.S. trading partners worldwide.³¹

Government Too Big

According to International Monetary Fund (IMF) data, annual government spending consumes more than 40 percent of GDP,³² and public debt currently also amounts to nearly 40 percent of the economy.⁵³ To pay for this spending the government gobbled up more than one-third of GDP. Taxation in Argentina is high and is biased against private business and the poor. The top individual and corporate tax rates are 35 percent. Other taxes include a value-added tax, a wealth tax, and a tax on financial transactions.

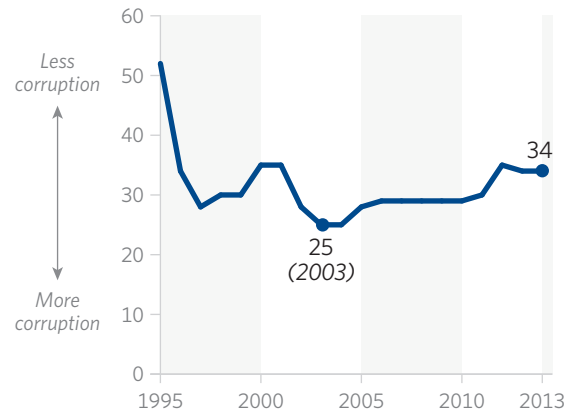
While Argentina ostensibly has a progressive tax structure, distortions within the tax code ultimately create a regressive tax system due to a mismatch in deductions and marginal tax rates, aggravated by the government’s intentionally false consumer price index statistics.³⁴

There are a number of ways the next government can reform the tax system but, perhaps the best, would

CHART 5

Corruption Persists in Argentina

CORRUPTION PERCEPTIONS INDEX



Source: Transparency International, "Corruption Perceptions Index 2013," <http://cpi.transparency.org/cpi2013/> (accessed December 17, 2015).

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be to adopt a flat tax. While multiple variations of the flat tax have been proposed, each recommends the following: a single, low rate on personal and business income, no taxation on death or savings, immediate expensing of business investments, and the removal of unwarranted credits, deductions, and exemptions.

Doing Business: Increasing Difficulty

Regulatory encroachment on private businesses increased under the Kirchners, with government interference discouraging entrepreneurship and raising regulatory uncertainty. The government regulates the prices of electricity, water, and gasoline, and brings pressure to bear on private companies to fix prices and wages.

It takes 14 bureaucratic procedures and 25 days to open a business in Argentina.³⁵ Next door in Chile, the comparable figures are seven procedures, and five and a half days.³⁶ Not coincidentally, Chile has the highest level of economic freedom in Latin America.³⁷

Rigid and ineffective bureaucracy complicates the task of starting a business. The necessary steps and time frame for approval, illustrated by Table 1, are greater than the Organization for Economic Cooperation and Development (OECD) average. Obtaining construction permits can take a year; obtaining elec-

tricity service can take 30 days. These state-imposed burdens add additional costs to doing business in Argentina that can deter a potential entrepreneur.³⁸

Closing a business is even harder, given the complex Argentine bankruptcy procedures. According to the World Bank's "Ease of Doing Business in Argentina" report, it takes an average of nearly three years to navigate the country's bankruptcy proceedings, and typically costs 12 percent of the value of the estate to do so. The average recovery rate for the typical failed business in Argentina is only about 29 percent of pre-bankruptcy asset levels.³⁹ As if the labyrinthine bankruptcy laws were not difficult enough, the problem is aggravated by the absence of specifically designated courts for bankruptcy and reorganization hearings.⁴⁰

Rocky Labor Relation and Crippling Strikes

The labor market lacks flexibility, and a rising mandated minimum wage has driven more economic activity into the informal sector.

Notwithstanding the crucial role of organized labor in the Peronist coalition, since 2011 (when wage caps were imposed to try to control inflation), the Kirchner government's relationship with labor became increasingly strained. In 2012, trade unions opposing Kirchner's economic policies called strikes that created transportation bottlenecks and hindered grain exports.⁴¹ In April 2014, a general strike crippled the economy, shutting down all transportation, many businesses, schools, some hospitals, and sanitation.⁴² Strikes have continued: June 2015 saw a 24-hour walkout by its transport unions. The second such strike in three months,⁴³ it affected the entire transport sector, as well as solid waste collection, forcing many schools and businesses to close.

Flawed Monetary Policies

Another area of concern, and one where the rule of law has palpably weakened in Argentina, was exemplified by the Kirchner government's decision in 2012 to take direct control of the formerly independent central bank.⁴⁴ It is vitally important for the health of any country's financial system that the central bank be immune from interventions by self-serving politicians who have their own short-term interests in mind, not the long-term needs of the country.

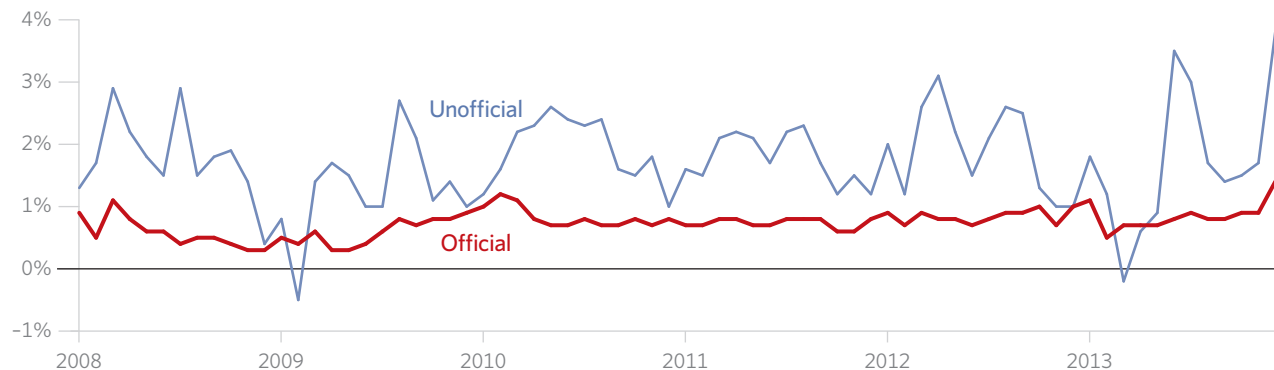
The Kirchner monetary policies created rampant inflation. The labor problems noted above are a direct

CHART 6

Argentina Reports False Inflation Statistics

The official Argentine government statistics agency has been deliberately underreporting inflation in order to reduce the amount of coupon interest paid by domestic bondholders.

PERCENT CHANGE IN CONSUMER PRICE INDEX, MONTH-ON-MONTH



Sources: Federal Reserve Bank of St. Louis, “State Street Price Stats Inflation Series for Argentina,” 2008–2013, <https://research.stlouisfed.org/fred2/series/ARINFL#> (accessed January 11, 2016), and Instituto Nacional de Estadística y Censos Republica Argentina (National Institute of Statistics and Census of Argentina), Informes de prensa (Press Releases), “Índice de Precios al Consumidor Nacional urbano” (Price Index National Urban Consumers), 2008–2013, http://www.indec.mecon.ar/informesdeprensa.asp?id_tema_1=3&id_tema_2=5&id_tema_3=31 (accessed January 11, 2016).

SR 179  heritage.org

result of this inflation. Unrelenting inflation threatens to consign many workers to the impoverished life of the “working poor.” An economy constantly under threat of wildcat strikes does not operate efficiently nor does it bode well for attracting FDI. The issue of wages not keeping pace with inflation must be addressed by the new president, because the inflation that has caused the value of the after-tax wages to lose purchasing power is a direct result of Kirchner’s erroneous policies.

Historically proudly independent, the Banco Central de la República Argentina’s (BCRA—Argentina’s central bank) primary mission had been to preserve the value of the country’s currency. Under Cristina Kirchner that changed in 2012, when its mission was restated “to promote, to the extent of its ability and in the framework of policies established by the national government, monetary stability, financial stability, jobs and economic growth with social fairness.”⁴⁵ Translated into *Kirchnerista* realpolitik that meant for all practical purposes that a political component was added to the BCRA’s mission allowing the government to establish direct access to central bank funds.

False Official Figures on the True Inflation Rate. Under Kirchner the official Argentine government statistics agency, the Instituto Nacional

de Estadística y Censos (INDEC), deliberately and repeatedly underreported inflation, despite numerous warnings by the IMF not to do so. From 2007 to 2014, for example, private-sector economists estimated the actual inflation rate in Argentina as double or even triple the rate reported by the INDEC. (See Chart 6).⁴⁶ In February 2014, the INDEC attempted to obfuscate this under-reporting by announcing a new, “more credible” consumer price index.⁴⁷

By manipulating official inflation statistics, the government significantly reduced the amount of coupon interest paid to its domestic bondholders, many of whom were forced to accept the new bonds as part of the debt-restructuring “haircut” imposed by the government in 2005.

Under the Kirchner governments, relations with the IMF, the world’s “lender of last resort,” became increasingly tense, with Argentina blaming the IMF for bad advice that led to the 2001 debt default (not entirely true),⁴⁸ and the IMF (accurately) accusing Argentina of misrepresenting economic and inflation data.⁴⁹

Currency Controls, Black Markets, and Capital Flight. After decades of inflation, hyperinflation, and more inflation, Argentines have understandably become reluctant to hold pesos. When the gov-

TABLE 1

The Bureaucracy Behind Opening a Business in Argentina

It takes 14 steps and approximately 25 days to start a business in Argentina. These, along with additional state-imposed burdens, such as obtaining construction permits and electricity services, greatly deter potential entrepreneurs.

STEP	PROCEDURE	DAYS TO COMPLETE
1	Verify the company name with the Office of Corporations (Inspección General de Justicia) (ICJ)	1
2	Certify signatures of partners by a notary public	1
3	Deposit initial capital in National Bank (Banco de la Nación Argentina) and obtain proof of payment	1
4	Publish the new company's notice in the official paper (<i>Boletín Oficial</i>)	1-3
5	Pay the incorporation fee	1
6	Register with the Public Register of Commerce of the City of Buenos Aires	5-10
7	Buy special books	1
8	Acquire form from the Public Notaries College, have a notary public submit the company books for validation by the General Inspection of Justice (ICJ)	5
9	Corporate manager must obtain a fiscal code (Clave Fiscal)	1
10	Obtain a tax identification number (CUIT) from the National Tax Office (Administración Federal de Ingresos Públicos, AFIP) and register for social security	4
11	Register turnover tax at local level at the Dirección General de Rentas (DGR) in the City of Buenos Aires	Less than 1
12	Register with the Sistema Único de Seguridad Social (SUSS)	Less than 1
13	Contract an insurance policy for employees with a risk-labor company (ART, Aseguradora de Riesgos del Trabajo)	1
14	Rubricate books of wages in the Ministerio de Trabajo (Ministry of Labor)	1

Source: World Bank Group, "Ease of Doing Business in Argentina," *Doing Business*, 2015, <http://www.doingbusiness.org/data/exploreeconomies/argentina/#starting-a-business> (accessed December 18, 2015).

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ernment stopped pegging the peso to the dollar in January 2002, the peso's purchasing power fell dramatically,⁵⁰ going from parity (one-to-one) to more than three-to-one within a year. In the years since, the peso has kept falling and now is at more than nine-to-one.

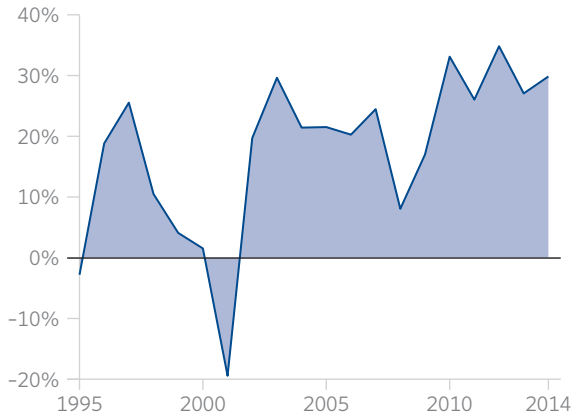
In an attempt to prop up the peso and prevent additional foreign currency from leaving the country, Kirchner imposed a series of controls on foreign cur-

rency transactions, enacting more than 30 regulations since 2011. These included curtailing most foreign currency purchases, taxing Argentines on the estimated value of their foreign vacations and on Internet purchases, preventing foreign companies operating in Argentina from paying out dividends, and restricting imports⁵¹ (which have meant higher input costs for import-dependent local companies). By 2013, facing a deteriorating balance of payments, the government

CHART 7

Money Stock Unsteady in Argentina

MONEY STOCK CHANGE,
ANNUAL PERCENTAGE



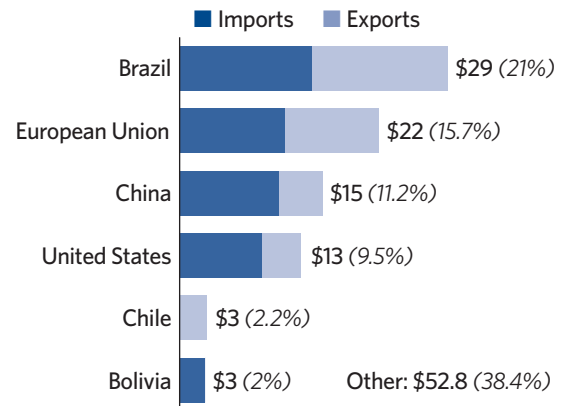
Source: The World Bank, Data, "Money and Quasi Money Growth (Annual %)," 1995-2014, <http://data.worldbank.org/indicator/FM.LBL.MQMY.ZG> (accessed January 8, 2015).

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CHART 8

Argentina's Top Trade Partners

TRADE BY COUNTRY, IN BILLIONS



Source: World Trade Organization, "Argentina: Merchandise Trade," September 2015, <http://stat.wto.org/CountryProfile/WSDBCountryPFView.aspx?Language=E&Country=AR> (accessed January 11, 2016).

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imposed truly draconian bans on foreign-currency transactions to protect dwindling dollar reserves.

Despite these measures, capital flight accelerated. A recent and telling example has been the purchase of U.S. real estate by Argentines to circumvent capital controls. Millie Sanchez, executive vice president for real estate developer Douglas Elliman Florida, reports that almost 50 percent of all new condominiums built in Miami are sold to Argentines.⁵²

Trade Distortions. As the world's third-largest producer of soybeans,⁵³ Argentina's trade surplus was its sole positive economic indicator during the Kirchner years. Predictably, since it was cut off from global capital markets, the government tried to exploit the soybean windfall by imposing high export tariffs (taxes) on soybeans and other agricultural commodities to rebuild the country's foreign exchange reserves. Soy and its derivatives bear the largest taxes, at rates around 35 percent, whereas wheat and corn are taxed at around 20 percent.⁵⁴ Additionally, limits were imposed on wheat exports to contain domestic prices,⁵⁵ and exporters were permitted to exchange dollars for pesos only at the official exchange rate.

Another flawed and trade-distorting policy the Kirchner administration imposed with the goal of preserving central bank reserves for its own political use was a government regulation requiring auto-

mobile importers to match the value of their imports with an equal value of exports. The importers were forced to adhere to the regulation by exporting agricultural products, which diverted them from their main business expertise.⁵⁶

Argentina's average weighted tariff rate of 5.6 percent is not particularly high, but the government's 21st-century version of the old "import-substitution" policy from the 1950s—a failed attempt to stimulate the economy by forcing the substitution of domestically manufactured products for similar imported products—has created onerous non-tariff barriers. Kirchner used the import-substitution policy periodically to ban imports on such products as French cheese, iPhones, Apple computers, BMW cars, and Barbie dolls. The government also used the policy to coerce companies to produce goods in Argentina. Some companies gave in, such as Research in Motion (now Blackberry) which, in July 2011, announced that it was partnering with Bright Star Corp. to assemble some of its devices in the Tierra del Fuego region (the Kirchners' home area).⁵⁷

Argentina's most important trading partners are Brazil, China, and the United States. (See Chart 8.)⁵⁸ Its most important trade agreement, the Mercado Común del Cono Sur (Mercosur) of Argentina, Brazil,

Paraguay, Uruguay, and Venezuela, was designed to promote the free movement of people, goods, and services between the member states, but has largely failed in that goal.⁵⁹ Mercosur has never fulfilled its potential because its two biggest members (Argentina and Brazil) clung stubbornly to the protectionist policies that MERCOSUR was supposed to mitigate. Nevertheless, Mercosur represents a potentially large market for Argentina, but it should be re-shaped along the lines of the more successful Pacific Alliance.⁶⁰ President Macri took an excellent first step to revitalize and reform Mercosur when he said on November 23, 2015, that he “would seek Venezuela’s suspension from regional Mercosur trade bloc over rights abuses committed by President Nicolás Maduro’s administration.”⁶¹

Hostile Investment Climate

Given Argentina’s track record, businesses and investors have developed well-grounded and rational fears of nationalization and loss of investment capital. Néstor Kirchner re-nationalized the postal service, and also nationalized a shipyard, the railways, a water company, and a mobile phone operator.⁶² In 2008, \$30 billion in private pensions were seized by the Cristina Kirchner government.⁶³ She also nationalized Aerolíneas Argentinas. Perhaps the most infamous re-nationalization in recent years was that of YPF, a formerly state-owned entity that had been privatized during President Menem’s liberalization reforms in the 1990s.

Argentina’s long history of nationalizations has hurt its climate for FDI. A common practice that countries with spotty track records have used to improve their FDI reputations has been to sign bilateral investment agreements (BIAs). These agreements provide a legal basis setting the terms by which nationalizations can occur and allow equal treatment of companies both inside and outside the country. Argentina has 58 BIAs, the majority having been signed in the 1990s under Menem.⁶⁴ Renegotiating them and seeking new ones may help improve Argentina’s reputation and attract more FDI.

The Way Forward

President Macri takes office in a country that has lost much of its economic freedom over the past decade by squandering its immense resources. His task, for the good of the people of Argentina, the region, and the world, will be to restore it. The following steps would help:

- **Improve Argentina’s investment climate** by re-establishing the rule of law through an aggressive campaign to root out corruption and re-establish an independent judiciary.
- **Control inflation** by implementing a coherent policy to limit the printing of money.
- **Restore the independence of the central bank** so that the new government can execute effective monetary policy.
- **Resolve remaining issues connected to the 2001 default.** With such a poor credit history, it might be advantageous for the next government of Argentina to issue short-term maturity debt and denominate it in U.S. dollars, a strategy that could allay investor fears.
- **Streamline the regulatory structure** to encourage private business formation and overhaul antiquated bankruptcy laws.
- **Institute a flat tax** and lower the 35 percent flat tax on businesses.
- **Eliminate export taxes on soybeans and other agricultural commodities** to generate increased exports of more competitively priced products.

Conclusion

Argentina’s new president inherits a system of political instability and restrictive policies that has hindered economic growth. The downfall of Argentina, once a great and wealthy country, began under Juan Perón; the Kirchners merely perfected the damage.

As noted economist and Argentina native Dr. Alejandro Chafuen has written, it was Perón who put Argentina on “the road to decay” by implementing fascism, “one of the most powerful collectivist doctrines of the 20th century,” which was based on “government-based economic management” that “devastated the economic culture and rule of law.”⁶⁵

President Macri must bury Perónism once and for all, and announce the advent of a new day for Argentina, a day when everyone can get back on the road to market-based democratic principles, economic freedom, and prosperity.

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