

Policy Brief

The experience of the Argentine Republic: Market integration within MERCOSUR and with other global partners Insights for AfCFTA countries?

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The contrast between Argentina's rich natural resource endowment and its poor economic performance has been the focus of much socio-political and economic analysis. When it created MERCOSUR with its immediate neighbors, Brazil, Uruguay, and Paraguay in 1991, it had access to a trading bloc with a combined GDP of US\$ 419 trillion (2019), making it the 5th largest economy in the world. Joining the MERCOSUR was a break from its protectionist past. But it did not last.

Argentina greatly improved its economic performance within the expanded regional market, but it was not able to sustain the growth. In fact, it repeated its boom-and-bust cycle as it suffered depression in 1998 and a financial crisis in 2002. The opportunity of expanded regional market opportunities was not sufficient to shield Argentina from its disabling domestic political-economic environment.

While there are several views that seek to explain Argentina's poor economic performance, Argentina's experience clearly shows that the domestic policy and institutional environment must be enabling of productive, market-driven, and stable growth. Such an enabling environment is essential for a country to leverage regional market opportunities onto a higher and more sustainable growth path. Thus, the extent to which African countries have such an enabling domestic environment will shape their ability to leverage the continent-wide market opportunities offered by AfCFTA.



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INTRODUCTION

A high-income country at the dawn of the 20th century, the Argentine Republic (henceforth, referred to simply as Argentina) is now an upper-middle-income country characterized by sharp inequality of wealth and income and a highly volatile political-economic performance. Argentina is the largest (by area) Spanish-speaking country in the world, covering some 2.8 million square kilometers (sq km). It has 2.64 ha per person; one of the world's highest land endowments per person. It has a favorable temperate climate, which makes it a fertile place for livestock and rainfed crop production. It is endowed with rich natural resources; e.g., very fertile agricultural lands of the Pampas covering more than 750 thousand sq km; energy—with the world's second-highest shale gas and fourth-highest shale oil reserves not to mention world-class wind and solar potential; and in fisheries with its vast continental shelf measuring up to 200 meters (m) in depth. Despite such an impressive natural endowment, Argentina has not done well economically. Instead, it is widely known for its low productivity and recurrent boom to bust cycles.

For a brief period, roughly from 1991-2001, under President Carlos Menem, Argentina broke from its protectionist past to become a founding member of the MERCOSUR and to boost its economy by increasing its regional market integration with Brazil, Uruguay, and Paraguay. What was its economic performance during this 1990s MERCOSUR period, and did such performance differ from periods before and after that decade? What insights of interest to Africa can such experience yield as Africa embarks on its historic AfCFTA since January 2021?

ARGENTINA: GNI/CAP: USD 8, 930 (2020, CURRENT \$, ATLAS METHOD) – BRIEF POLITICAL-ECONOMIC BACKGROUND

Argentina, a protectionist stronghold since the 1940s: From the late 19th century up till the Great Depression of the 1930s, Argentina was a high income and high growth economy—GDP per capita was growing at 6.6% during the pre-WWI era—and it was a major exporter of agricultural goods. (Conde, 2009). The Great Depression of the 1930s proved to be a turning point for Argentina during which period Argentina first embraced protectionism to reduce its vulnerability to foreign markets and to protect domestic jobs. In a dualistic economy, the appeal of protectionism is strong to workers given its claim to be able to deliver a bigger portion of the national pie to them. But this did not materialize in Argentina. In fact, since the 1960s, the ratio of wages to GDP in Argentina has decreased: while that ratio was like Australia's in the 1960s, it has fallen by 40% by 2004. (Barakat et al; Sept 2013) High protectionism amidst recurrent political turmoil did not benefit Argentina: a rich country on the eve of First World War (WWI, 1914-18), Argentina has fallen to the level of an upper-middle-income developing country that is not doing well today.

Dependency Theory of Raúl Prebisch has been influential in Argentina and in much of the developing world: Prebisch, an influential economist in his home country of Argentina (and in the developing world from the 1950s on), gave trade protectionism a theoretical rationale, hence respectability. Raúl Prebisch (and Hans Singer) argued that terms of trade between

primary goods and manufactured goods exhibit a secular decline.¹ Thus, according to the Prebisch-Singer hypothesis (PSH), developing countries that export primary commodities to industrialized countries lose purchasing power over time because every unit value of their exports can buy less and less industrialized goods. Prebisch and Singer together formulated their theory in terms of dependency: the industrial world was the center that had the economic power and developing countries were the peripheries that did not—they were dependent. The political economy implication is that the periphery is being exploited by the center through the secular decline in the terms of trade of primary commodities. One key set of factors alleged to cause this deteriorating purchasing power is the low-price elasticity of demand for primary commodities versus the high-income elasticity for manufactured goods. This hypothesis has been extensively researched and its validity questioned. For example, an IMF (Aug 2013) study using time series data on 25 primary commodities, some way back to as far as 1650, argues that the evidence is mixed: while most series show declining terms of trade for primary goods, many also refute the hypothesis.² Moreover, the PSH does not account for the substantial technological progress in manufacturing since 1950. Thus, it is hard to compare the prices of manufactured goods over this long period, (e.g., transport and communications technologies) and man-made substitutions of primary commodities (e.g., man-made rubber for natural rubber). In the 1950s through 1970s however, the PSH was very popular in a developing world which had just gained its independence. It gave the rationale for nationalistic ideologies embracing the industry-first import-substituting strategies (ISI), which required protectionist trade policies.

Political turmoil, high protectionism, and recurrent boom and bust cycles have characterized Argentina: A brief chronology until the early 2000s shows the following: military coups (10); political turmoil (four elected presidents were overthrown); high protectionism (imports of anything that Argentina produced was banned); and recurrent boom and bust cycles (Baracat et al, 2013). Thus:

- In the 1930s - Demand for Argentina's agricultural products dried up as Europe and the United States struggled with high unemployment and collapsed incomes of the Great Depression. Democratically elected President Hipolito Yrigoyen was overthrown by the military.
- During 1944-45, 1946-55 on - Juan Perón, a democratically elected president, oversaw a brief period of relative prosperity post World War II. Commodity prices however fell sharply in the early 1950s and hard times came back. Perón nationalized British-owned railways and other private property. Business investment dried up and inflation soared. The situation worsened as Perón's popular wife Evita died (1952), and labor strikes paralyzed Argentina. The military struck again and sent Perón into exile until 1973. Although Perón served only briefly after he was allowed to return (he died in 1974), Peronism continues to be a major force in Argentina's politics. He exalted nationalism and was a populist who enlarged the participation of the urban working class in politics and intensified class polarization.
- From 1976 on - a tumultuous period of military coups and short-term democratically elected governments followed widely different economic policies. Peron was allowed

1. Hans Singer independently formulated the same hypothesis using empirical data between 1876-1948. In 1949, he published a paper entitled "Post-war price relations between Underdeveloped and Industrialized countries. Prebisch and Singer together formulated the dependency theory according to which the industrial world was the center and developing countries were the periphery. The political economy implication was that the periphery was being exploited by the center through the secular decline in the primary commodity terms of trade.

2. Series from 1650-2005 include beef, lamb, sugar, wheat, wool, lead, coal, gold. Series from 1872-2005 include cocoa, coffee, cotton, rice, tea, copper, silver, tin, zinc, pig iron, nickel, and oil. Series from 1900-2005 include banana, and jute. (IMF, 2013)

back but he died in 1974 of heart failure. The country was polarized. Annual inflation reached 600 % in 1976. Foreign debt exploded. Argentina fought and lost the war over the Falkland Islands (called the Malvinas Islands by locals) to the United Kingdom in 1982.

- During the 1980s - President Raúl Alfonsín was elected (Dec.1983-July 1989). During his short tenure of office, he was unable to regain stability and growth. Inflation reached 5000 % in 1989! Widespread strikes and looting again paralyzed the economy. Alfonsín handed power five months early to his elected successor Carlos Menem.
- From 1989 on - President Carlos Menem (1989-99) reversed the import substitution policies by entering into a regional FTA with Brazil, Uruguay and Paraguay in the Treaty of Asunción on March 26, 1991, with the intention of forming a Customs Union (a common external tariff by all members to non-members) which materialized on Dec 14, 1994, in the Protocol of Ouro Preto. MERCOSUR called for “the free movement of goods, services, and factors of production between countries” and a Common External Tariff (CET) of 35% for non-bloc countries.

Institutional weaknesses at macro and sector levels undermine stable, productive, and inclusive growth: Argentina’s low average growth of only 2.7 % per year (1950-2016) punctuated by high volatility and recurrent crises—14 recessions and 14 expansions—have been largely attributed to institutional weaknesses which include the federal revenue-sharing system and the political economy it perpetuates. Important social services (e.g., basic health care, education) are funded at provincial levels, but most revenues are collected at the federal level. The formula for revenue sharing has an automatic formula-driven component (coparticipación); and a sizable discretionary component by the executive branch. Thus, the federal-provincial fiscal structure incentivizes provincial governors to constantly lobby for more transfers while the executive needs these governors’ support to pass laws in the senate. This bargaining process favors “short-term deals” at the expense of long-term commitments to undertake and enforce reforms that can generate long-term stable and inclusive growth. In this political economy environment, and given the sharp income and wealth inequalities, the distributional conflict has generated strong pressures to overspend when economic conditions improve to compensate for the impoverishment during lean times. The overspending amplifies the booms and deepens the busts. This volatile socio-economic environment undermines investment and total factor productivity (TFP) growth. TFP growth since 1960 has averaged zero whereas it has averaged 0.6 percent annual growth in OECD countries. (WBG, Sept 2018) The stagnant TFP growth in a highly volatile environment reinforces each other in a vicious circle, resulting in mediocre growth which in turn further exacerbates distributional conflicts. The business environment also contributes to this poor performance: e.g., monopolistic structures which inhibit business competition; red tape and restrictive processes which unnecessarily increase the costs of doing business; procurement practices and regulations which encourage rent-seeking. In addition, the 1990s experienced widespread corruption³ which was both a cause and a symptom of these institutional weaknesses. The spread of anti-corruption scandals in the 1990s was, however, not limited to Argentina; in fact it was worldwide. (Naím, 1995) In Latin America, high profile corruption scandals included President Carlos Menem of Argentina (1989-99); Fernando Collor of Brazil (1990-92); Alberto Fujimori of Peru (1990-2000); and Carlos Andrés Pérez of Venezuela (1974-79; 1989-93). In Argentina, a total of 136 corruption scandals were recorded during the 1990s. Some 56% of the corruption

3. Corruption has many manifestations. In this paper, we use the definition from Transparency International: “the abuse of entrusted power for private gain”. Corruption can involve anyone (e.g., government officials, private business; public servants; members of the public; it happens “in the shadows”; it adapts to different contexts and circumstances. <https://www.transparency.org/en/what-is-corruption>

scandals were recorded involving politicians, whether in or out of office, whether in the ruling party or the opposition; the other big group involved journalists and the media; lawyers and judges; as well as businessmen. (Pereyra, 2019)

MERCOSUR, one of Latin America's latest attempts at regional market integration—salient features

MERCOSUR formed after repeated attempts at regional integration since 1960: Under the influential leadership of Raúl Prebisch,⁴ the United Nations Economic Commission for Latin America (ECLA) argued in favor of regional integration of Latin America to expand markets in the region, “thus increasing productivity yields and accelerating industrialization [given that] it was protected by high tariffs.” (Dabene, 2012) Thus, Latin American countries tried regional market integration several times:

- a. In 1960, the Latin America Free Trade Agreement (LAFTA) was established by nine countries: Argentina, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, and Uruguay. (TC, 1962) LAFTA differentiated sensitive goods from non-sensitive goods. It sought to bring down all trade barriers for non-sensitive goods during a 12-year period. It was to function under the Most Favored Nation Principle (MFN) according to which any preferential treatment granted to any non-member also had to be applied to all members of the bloc. These arrangements failed in meeting their own deadlines and the free trade program had to be extended to 1980. In 1980 however, LAFTA was dissolved.
- b. Through the Treaty of Cartagena, the Andean Group (AG) was formed in 1969, composed of Bolivia, Chile, Colombia, Ecuador, and Peru. Venezuela joined in 1973. This treaty too was dissolved between 1981-83. At the start, the entire group adhered to ECLA's ISI model. However, Chile under Pinochet (1974-1990) adopted a totally different model—neoliberalism. War broke out between Peru and Ecuador in 1981, and Peru also started following the neoliberal model. Chile left the group in 1976. The Colombian government was already deep in conflict (1964-2016)⁵.
- c. The Trujillo Protocol was signed in 1996 by the Andean Group (this time without Chile) now renamed the Andean Community of Nations (CAN). The CAN now embraced neoliberalism. This time, in addition to creating a free trade area, they wanted to create a common external tariff (CET). The CAN did experience an increase in intra-regional trade, but that trade plateaued in the early 2000s. Venezuela (then under Hugo Chavez's second presidential term), however, left the CAN in 2006 when Peru and Colombia signed free trade deals with the United States.
- d. On March 26, 1991, four countries—namely Argentina, Brazil, Paraguay, and Uruguay signed the Treaty of Asunción to form MERCOSUR. Venezuela joined in 2012 but was suspended in 2016. MERCOSUR was built on a previous partial trade agreement signed between Argentina and Brazil in 1986 called the Program of Integration and Economic Cooperation (PICE). MERCOSUR is a regional integration platform in three areas: free movement of goods; services; and factors of production. It also has a political objective:

4. Raúl Prebisch (April 17, 1901-April 29, 1986) was Executive Director of ECLA (or CEPAL) in 1950. In 1950, he released his study entitled *The Economic Development of Latin America and its Principal Problems*. He was Secretary General of the United Nations Conference on Trade and Development (UNCTAD) from 1964-69.

5. This protracted conflict is between the Government of Colombia and several groups: the far-right paramilitary groups; crime syndicates; and far-left guerilla groups. There are other parties in the conflict: the United States; multi-national corporations; the drug industry; and Cuba. It was triggered by the assassination of the liberal political leader Jorge Eliézer Gaitán. He was a left-wing Colombian politician, leader of the Liberal Party. Total number of casualties run in millions by the 2010s-2020.

the consolidation of democratic institutions in member states.⁶ There was a substantial drop in internal tariffs in 1991, and the agreement was to reach zero tariffs by the end of 1994. The Treaty also stipulated forming a common market by Dec. 31, 1994, including the establishment of a CET. The Protocol of Ouro Preto, signed on Dec. 16, 1994, changed MERCOSUR from a free trade area into a customs union. The Ushuaia Protocol signed in 1998 was a commitment of the region to consolidate its democratic institutions⁷.

ARGENTINA'S SOCIO-ECONOMIC PERFORMANCE UNDER MERCOSUR

Partial implementation of the Treaty of Asunción weakened the alleged free trade and market integrating nature of the agreement: When MERCOSUR was signed in 1991, hopes were high that regional market integration would stimulate industrialization, in high-value manufacturing, and increase employment, and income growth in all member countries. These high hopes were far from being realized. To begin with, the scope of the treaty was more ambitious than what was implemented. Thus, of the eleven principal policy provision areas of the Treaty, only two areas were implemented, and these were implemented only partially. These were with respect to trade in goods and capital goods mobility. The member countries were to harmonize their policies in other policy areas, but never did. These were with respect to labor mobility; monetary and exchange policy; tax policy; industrial policy; unfair trade practices; regional development; and research and development. They did however put in place a decision-making body for the Treaty by instituting the Common Market Group, the Common Market Council, and inter-governmental working groups in ten policy areas. Even though only two out of eleven policy areas were implemented, the changes marked a major reversal of Argentina's protectionist past. Specifically, with respect to trade in goods, Argentina (i) reduced average nominal tariffs from 42 % in 1987 to 15 % in 1994; (ii) eliminated nearly all quantitative import restrictions, except on automobiles, sugar, textiles, and some paper products; (iii) narrowed tariff dispersion to seven levels ranging from 0 to 20 %; and (iv) rendered automatic several features of the import regime such as duty drawback. Tariff rates for imports from MERCOSUR countries fell to zero by the mid-1990s. All export subsidies were eliminated except for the "mirror scheme" which granted to each export category a rebate equal to a tariff on competing imports of the same product. Export reimbursement varied from 2.5 to about 20 %, with the mode about 7% of the export value. As of Jan 1995, the CET was implemented. For certain imports outside the bloc, the CET is 35%. The CET had eleven tariffs levels which ranged from 0 to 20%, with most rates falling between 12-15%. Exemptions from the CET were automobiles, sugar, capital goods, telecommunications products, and informatics. (Frishtak et al, Aug 1996) The opening of Argentina's domestic market was however less than indicated by these substantial tariff reductions. Argentina imposed temporary trade barriers (TTBs) of anti-dumping (AD) and safeguards (SG) against the other founding members, the most important one being Brazil. TTBs rose over the 1990s to reach around 2.5 % of all imports by 2001. (Bown and Tovar; Sept 2016).⁸

6. There were political crises on four occasions threatening democratic institutions in MERCOSUR member states: three in Paraguay (1996, 1999, 2012); and one in Venezuela (2016).

7. Article 5 of the Ushuaia Protocol states that a member can be suspended in the event of a breakdown of its democratic institutions. Venezuela was suspended under this Protocol in 2016.

8. Brazil also levied TTBs during this 1991-2001 decade. They covered 1 % of all imports. (Bown and Tovar; Sept 2016)

Policy management and socio-economic performance in Argentina under MERCOSUR (1991-2001): President Carlos Menem reversed Argentina's longstanding policy of trade protectionism, but it was short-lived. He privatized large sectors of the economy which were dominated by public enterprises and put foreign investment on an equal footing with domestic investment. To stabilize prices, Menem instituted a currency board in 1991 and pegged the peso to be at par with the US\$. The peso was to be fully convertible which meant that the peso had to be fully backed with US\$. Dynamism returned to the economy. The economy grew and inflation was kept in check for a short while. Under Menem's expansionary macroeconomic policies, state expenditures rose by a full 50% (1992-99). (Pieper, 2020) Between 1990-98, exports grew by 114 % but imports grew by 670%. Over the same period, the current account trade deficit grew from US\$ 5,558 to US\$ 14,465. The deficits were financed by foreign direct investment. The real exchange rate appreciated (thus, with 1990=100, 2001=104). (Baracat et al, 2013)⁹ But Menem kept the (devaluing) peso pegged to a strong dollar. As to be expected, overvaluation boosted imports and worsened the trade deficit. Unemployment rose to 18 %; and so did informality especially among unskilled workers. Income distribution became more skewed and polarization between the haves and the have-nots intensified. External factors also hurt Argentina: (i) Brazil substantially devalued its currency in 1998-99 which hurt the competitiveness of Argentina's agricultural exports; and (ii) fears of financial contagion were fed as the Asian Financial Crisis (1997-98) and the Russian Financial Crisis (1998) exploded. Argentina's economic situation deteriorated into a recession, ending the convertibility regime in 2001-02. Inflation roared back and poverty rose. Corruption was rampant. Argentina defaulted on its debt. (WBG, Sept. 2018). Argentina thus underwent another boom-and-bust cycle. The bust exploded under Menem's successor, President Fernando De La Rúa (Dec 1999-Dec 2001). There was a run on banks. De La Rúa established corralito to limit bank withdrawals and imposed a state of emergency because of the Dec 2001 riots. He resigned on Dec. 20th. Turmoil lasted until 2002 as evidenced by a succession of nominated presidents who had to step down.¹⁰

Argentina's economic management, socio-economic performance, and integration in MERCOSUR since 2001-02: Argentina again went through a familiar cycle: boom—2003-11; then bust—2012-17. Between 2003-11, world markets for Argentina's exports were favorable: commodity prices rose, and annual export growth was around 11% (Baracat et al, 2013) The economy recovered and grew at an average annual rate of around 6%. (WBG, Sept 2018) The government followed an expansionary fiscal policy—expenditures grew by over 11% during 2004-11 to finance mainly pensions, subsidies, and wages. Such current expenditures turned a 3.3% fiscal surplus to a 7.8% deficit by 2016. Private employment growth stalled during 2011-15. Despite favorable commodity prices, overall growth was mediocre with GDP in 2017 only 2.5% higher than in 2011; which represented a fall in real GDP in per capita terms. In 2011, to counter a rising trade deficit, the government increasingly adopted protectionist measures of quantitative restrictions on foreign trade and exchange markets and imposed export taxes. (WBG, Sept. 2018) By early 2010s, trade within MERCOSUR stalled. Trade outside MERCOSUR has become more important than within MERCOSUR trade. In fact, after 30 years, China emerged as MERCOSUR's most important trade partner in the 2010s; the EU used to be the first. After 30 years, MERCOSUR is still not a free trade area or a customs union. After 20 years of negotiations,

9. 1 Argentine Peso (ARS) = 1 US\$ (1991) By 2001, 4 ARS =1 US\$. The depreciation of the peso worsened in the following decade. Thus, the real exchange rate which was 1990=100; by 2010 it was 278. Currently, (Nov 13, 2021) 1 US\$ = 100: 235 ARS

10. The succession of short-term presidents were Ramón Puerta, a Peronist, 2 days; Adolfo Rodríguez Saá, 8 days; Eduardo Camaño, 3 days; Eduardo Duhalde; one year. In the 2003 elections, Néstor Kirchner was elected president (May 2003-Dec 2007). He was succeeded by his wife President Cristina Fernández de Kirchner (2007-15).

MERCOSUR signed a free trade deal with the EU (July 2019) but it has not been ratified as of Nov 2021. Major obstacles to its ratification include increased deforestation (a major case being the increased burning of the Amazon forest under President Jair Bolsonaro, (Jan 01, 2019-current);¹¹ stiff opposition from EU beef producers;¹² and from Brazil's Indigenous communities.¹³

The COVID-19 pandemic struck a weakened Argentina undergoing reforms: President Macri (2015-19) initiated neo-liberal reforms which included removing foreign exchange controls; halving subsidies on energy and transport; reducing export taxes and easing import controls; and improving conditions to reduce the costs of doing business, among other things. Unfortunately, the economic response to these gradual reforms was slow while unemployment and inflation remained high—nearly 25 % by end 2017 and nearly 48 % in 2018. In 2018, disaster struck in the form of a severe drought which sharply reduced soy exports, Argentina's main export. Furthermore, global financial conditions tightened as the Federal Reserve raised interest rates and the US\$ appreciated. The peso depreciated sharply—over 50% in 2018—and suddenly, Argentina's financial markets came under intense pressure. To restore confidence, President Macri sought a loan of US\$ 50 b from the IMF in April 2018 (which increased to US\$ 56.3 b in Oct 2018). (WBG, March 2019) Then the COVID-19 pandemic exploded. Like so many economies, Argentina was hard hit: It lost 9.9 % of its GDP in 2020—the largest contraction since 2002—due to lockdowns and other restrictive measures. Urban poverty reached nearly 41 % in the first semester of 2021; with nearly 11 % of Argentines falling in extreme poverty. The Government of Argentina prioritized social spending through several programs including the Universal Child Allowance which reaches around 9% of the population. (World Bank: Overview; Oct 04, 2021). One bright spot is that nearly 70 % of its population has been fully vaccinated (JHU, Dec 15, 2021), with the Government of President Alberto Fernandez's¹⁴ response considered one of the best in the Latin American region.

Conclusion: Insights for AfCFTA countries embarking on regional market integration? Argentina is a classic case of a country with a historically strong middle class, endowed with abundant natural resources but whose long term economic performance has been mediocre at best. From the position of a high-income country before the Great Depression, Argentina has fallen to become a highly volatile upper-middle-income economy characterized by high inequality of wealth and income, with low productivity, plagued by recurrent bouts of high inflation. Why? And did the expanded regional market opportunity of MERCOSUR significantly improve its economic performance? There are several views on key causative factors. Major ones include:

- A federal revenue sharing system that gives rise to a political economy promoting short-term political 'deals' at the expense of longer-term structural reforms. Most revenue is collected at the federal level, but the most important basic services are funded at the provincial level. Although there is a formula for automatic sharing of federal revenues with the provinces, there is also a large discretionary component over which the executive wields much power. The constant lobbying in this system provides

11. In fact, the Amazon forest "now releases more carbon than it stores" (Schatzschneider, Aug 2, 2019)

12. Cattle farming is one of the most important drivers of deforestation in Brazil.

13. Brazil's Indigenous communities are being increasingly threatened by Bolsonaro's measures which include removing funding for agencies which enforce the law in the Amazon and allowing illegal goldmining in Yanomani Indigenous Territory. Numerous human rights activists and NGOs, and European governments (e.g. Austria, Belgium, Ireland, have voiced strong opposition to the EU-MERCOSUR deal. (Wikipedia, Aug 10, 2021)

14. President Alberto Fernández (Dec 2019-current) is a member of the center-left Peronist Justicialist Party. His Vice President is Cristina Fernández de Kirchner, former President of Argentina (Dec 2007-Dec 2015) and widow of former President Néstor Kirchner (Dec 2003-Dec 2007).

fertile ground for corruption, and for perpetuating the sharp inequality of wealth and income which in turn exacerbates class conflicts.

- Continued policy of high trade protectionism of domestic economic activities (e.g., industry, agriculture, and services) whose dynamism, diversification, and international competitiveness are being undermined by the trade protectionism itself; by monopolistic structures which do not create a level playing field between large and small enterprises; by corruption and other practices which increase the cost of doing business and deter foreign direct investment.
- The nationalistic and populist character of Peronism shapes a political economy that favors protectionism and short-termism. These two forces, in no small measure, have contributed to the disparity between Argentina's great potential and its actual performance of low productivity growth. The expanded regional market opportunity offered by MERCOSUR did improve economic performance for almost a decade, but it could not be sustained. Domestic forces undermined performance as Argentina resumed its boom-and-bust cycle.
- The promise of MERCOSUR was never allowed to flourish as a minority—only two out of its eleven policy provisions—were implemented. In addition, Argentina imposed TTBs against the other members, the most important being Brazil.

These views can and should be further analyzed because they refer to the confluence of different, possibly more fundamental forces and factors. To dig further into these views is important, but it would bring us far afield given our focus here. Based on Argentine's experience, what is clear however, is that when country potential and performance diverge so dramatically and for so long; the country's ability to use expanded regional marketing to charter a new path of productive and inclusive growth is highly vulnerable to the same domestic problems that undermined its performance. As discussed elsewhere,¹⁵ reforms behind the border—the enabling policy and institutional environment—are determining. The key insight is that the domestic policy and institutional environment must be enabling of competitive, market-driven, and inclusive growth. This environment is essential for the country to leverage opportunities offered by regional (and global) market integration to sustain a higher growth path.

15. For example, this point was made in "Asian Economic Integration in an Era of Global Uncertainty", the section on "Asian economic integration: The state of play" by Mari Pangestu and Shiro Armstrong (Australian National University, 2016). Asia exemplified market-driven integration as opposed to rule-driven integration as in Latin America. (Aminian et al, 2008). Also in I. Tsakok, I: "Regional Market Integration, Agricultural Transformation and Poverty Reduction" , Policy Paper, PP-14-21, August 2021.

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About the Policy Center for the New South

The Policy Center for the New South: A public good for strengthening public policy. The Policy Center for the New South (PCNS) is a Moroccan think tank tasked with the mission of contributing to the improvement of international, economic and social public policies that challenge Morocco and Africa as integral parts of the Global South.

The PCNS advocates the concept of an open, responsible and proactive « new South »; a South that defines its own narratives, as well as the mental maps around the Mediterranean and South Atlantic basins, within the framework of an open relationship with the rest of the world. Through its work, the think tank aims to support the development of public policies in Africa and to give experts from the South a voice in the geopolitical developments that concern them. This positioning, based on dialogue and partnerships, consists in cultivating African expertise and excellence, capable of contributing to the diagnosis and solutions to African challenges.

The views expressed in this publication are those of the author.

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