

Argentine Ambassador Defends Kirchner Debt Policy in FIU Lecture

Argentina's problems were caused by bad policies, bad management, bad luck and bad parenting, according to the Argentine Ambassador to the US the Honorable José Octavio Bordón. Bad policies because the Menem government during the 1990s instituted much needed anti-inflation policies but implemented them correctly. Bad management because the public sector and its policies were not efficiently and honestly managed. Bad luck because of the impact on the country of the Mexican peso crisis, the Asian crisis and the Brazilian crisis. Bad parenting because of the policies of international financial institutions (IFIs), especially the International Monetary Fund.

Speaking at a forum organized by the Summit of the Americas Center in March, Ambassador Bordón argued that the Argentine government should have negotiated with the IFIs and private creditors. Economic indicators show, however, that the country is beginning to recover. Per capita income before the crisis was \$7,416; it dropped to \$2,912 in 2002 and is now about \$3,600. Inflation was 41% in 2002 and is now about 2.4%; unemployment was officially 20% and is now 14.5%; GDP dropped from \$268 billion to \$103 billion in 2002 (with a 55% poverty rate) and is now \$130 billion. Argentina has experienced six straight quarters of growth, with growth of 10% recorded in Jan. 2003 to Jan. 2004.

President Néstor Kirchner has seen his approval ratings increase from 22% at the beginning of his term to current levels of 80%. According to Bordón, he has supported the election of senators and congressmen, increased respect for law and reduced corruption. The judiciary is now more independent as the appointments process has been reformed and become more transparent. Kirchner's economic and political program has support. The provinces laud the central government's decision to generate 2.4% of GDP in budget surplus to pay domestic and international obligations, leaving them to generate 0.6% for their share. In the social arena, the government places highest priority on creating jobs and on education.

Ambassador Bordón cited Argentina's external debt as \$132 billion. Kirchner has the support of the G-7, regional governments and the US for his debt policy. Argentina is committed to meeting its payment obligations even without new funds, but he noted that there must be economic growth in Argentina or the program will be politically unsustainable. Only a few days before Bordón's talk, Argentina paid \$3.1 billion to the IMF. It will now undertake to negotiate with bond holders but the discussions will be complex, as they involve 152 bond issues in seven currencies and eight jurisdictions held by many institutions and individuals. A committee of seven banks was chosen to carry out this task. Defaulted bonds will be exchanged.

Argentina, Ambassador Bordón pointed out, has diversified trade destinations for imports and exports. Thirty-seven percent of imports come from MERCOSUR, 20% from NAFTA, 19% from the EU, 13% from Asia, 2% from Chile and 1% from the rest of Latin America. Twenty percent of exports go to the EU, 18% to MERCOSUR, 12% to NAFTA, 18% to Asia and 12% to Chile. Agricultural exports represent 50% of all exports. Argentina has no agricultural subsidies.

Regarding the Free Trade Area of the Americas (FTAA), Ambassador Bordón expressed the hope that progress will be made at the next meeting in Mexico and argued that it is still not too late to reach an agreement. He said Argentina's strategy is to join FTAA but to enter together with MERCOSUR. MERCOSUR is more than a customs union, he pointed out, and entails political and cultural integration as well. Argentina does not oppose globalization but is concerned that it not increase inequality and that worker's and human rights be protected.

The Ambassador emphasized that Argentina's foreign policy has improved under democratic governments. Under military governments tensions were high with Chile and troops were stationed near the borders with Chile and Brazil. Today, Argentina's relations with its neighbors are good and no troops are on the borders. Argentina cooperates in the war on terrorism and is a strong supporter of nuclear non-proliferation. Argentina's new leadership, he claimed, focuses on social, fiscal and international responsibility with an emphasis on non-conflict scenarios. Politically, it supports multilateralism, open regionalism and responsible leadership.

Ambassador Bordon praised relations with the state of Florida, noting that some Florida trade and investment missions have visited Argentina. Before the crisis, Argentina imported about \$2 billion from Florida, and this trade is now recovering. He pointed out Argentina's high levels of education, which the government hopes to convert into a competitive asset to attract investment in high-tech industries.

Questions:

When asked about debt payments, Ambassador Bordon again referred to the complexity of the bond situation. He said that Argentina is willing to recognize the nominal value of the bonds but stretched out payments would result in a present value of 25%. He also called for limiting interest increases, especially early on. He reiterated that Argentina is not getting any fresh funds from the IFIs and that other obligations put demands on its resources; for example, 1.5% of GDP goes to fill the deficits in the country's pension funds. He made it clear that the country will not pay more than it can, meaning there must be economic growth and maintenance of social programs.

When asked about Argentina's Cuba policy and the foreign minister's praise for Fidel Castro during a recent visit, Ambassador Bordón claimed that the official was unable to meet with the opposition as Castro had done during a visit to Buenos Aires. The government supports more opening rather than isolation of Cuba. He predicted that Argentina would abstain on the vote on Cuba in the UN Human Rights Commission.

With regard to the "piqueteros" (organized road blocks by the unemployed to press their demands), Ambassador Bordón was emphatic that the government would not allow indiscriminate road blocking but pledged that it would not practice repression. The new government has brought recovery to Argentina, he claimed; people are confident in the country's institutions and in its justice system, although there is still much poverty. The government will impose order but with moderation and a social conscience.

Ambassador Bordón was asked how he could be optimistic about the FTAA if Argentina is committed to entering it along with MERCOSUR, considering that liberalization of trade within MERCOSUR has gone so slowly. He pointed to agriculture as the key to getting

MERCOSUR into the FTAA and noted that economic integration has progressed steadily within the South American bloc.