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Is Populism Against Trade? Argentina's Trade Policy in the Context of Latin American Populism

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Introduction

Many Latin American countries have undertaken new economic reforms since the mid-80s. This includes trade liberalization, which breaks a long tradition of import-substituting industrialization (ISI) policies in the region, following the wider view that economic openness contributes to growth, while ISI policies do not help to close the income gap between Latin American countries and the countries in the developed world. Instead, average growth in Latin America has been both erratic and modest, in sharp contrast to that of East Asian countries, with their outward-oriented trade policies and subsequent growth in per capita income (Ahumada and Sanguinetti 328).

Throughout the 1990s, successful Latin American politicians took their inspiration from the "Washington Consensus" and won elections by promising closer ties to the United States. Argentina was no exception, and the country was invited to become part of a select group of "major non-NATO allies" because of its strong political and military links with the US in 1998 (The Lost Continent 1). The country also introduced market-oriented reforms that were so extensive that the right-of-center Heritage Foundation ranked the country's economy among the world's "freest" in 1999 (The Politics of Argentina's Meltdown 29). Carlos Ménem even spoke at the 1998 joint annual meeting of the boards of governors of the International Monetary Fund (IMF) and the World Bank Group, stating, "we must wipe out the last vestiges of protectionism and production subsidies still lingering in the developed economies if we are to achieve free and fair trade" (Ménem 5).

Yet only 10 years later, in 2009, Argentine President Néstor Kirchner, who represented a left-of-center coalition that ran on a platform of undoing previous “neoliberal excesses” and was constantly derisive towards the United States, had an approval rating of 70 percent. In just those 10 years, running for political office in Latin America on the grounds of privatization, free trade, or US support went from being the definition of electoral success, to political suicide. Aggrieved and impatient Latin Americans who were on the lookout for new candidates that broke with what had been established as the status quo opened the door for candidates like Néstor and Cristina Kirchner — candidates who were reminiscent of traditional populism, used massive political spending as a crutch, and scapegoated the private sector to benefit their popularity (The Lost Continent 3-6).

Using the definition of populism as the political mobilization of the masses from a top-down approach (Levitsky and Roberts 6), it can be easy to fall into the trap of defining populism as any economic measure that appeals to the masses and brings additional popularity to the political leader. This is an overly broad perspective of populism. Others, using a political approach, categorize populism as a theory that promotes a disastrous type of macroeconomic development. This characterization of populism includes using political power to finance redistributive policies in favor of the poor to improve quality of life for previously excluded sectors of society, which create debt and inflation in the long-term. This is followed by major financial crisis, which necessitates painful economic reforms that ultimately deepen inequality and poverty. This view falls short, however, in that it does not explain why leaders such as Argentina’s Carlos Ménem instituted neoliberal reforms under the argument that is was the only way to achieve stable macroeconomic development (Kaltwasser 496).

This paper, however, looks specifically at the openness of the economy to the world and the integration of the economy into the international trade environment as a leverage point for rethinking populism. It starts with an overview of populism and the Kirchner administration as a whole. The paper then opens the theoretical space through a discussion of strategic trade and of the relationship between trade and populism, which leads into a discussion of trade policy in Argentina over time and during the Kirchner administration specifically, as well as a quantitative analysis of trade data from the period. To get a better perspective on the implications of the trade policy, interviews were conducted with scholars on the topic, who have also experienced the effect of the Kirchner administration and different trade policies in Argentina firsthand. The information garnered from these interviews in incorporated throughout the paper, and is used as a lens to approach the topic (Appendix 1).

The question at hand is if understanding trade and populism helps inform an understanding of concerns about populist governments in terms of trade. Countries in Latin America have been plagued by ISI policies, while East Asian countries saw success with export-led growth. Export expansion and import substitution are not contradictory policies; in fact, they complement each other. ISI is one stage of development policy, and export-led growth is a second stage (Amsden 172). Unfortunately, most Latin American countries never made it to the export expansion and trade openness stage of policy. The region came closest when many of its countries embraced the neoliberal policies of the Washington Consensus, which included the recommendation of moderate general tariffs at 10 to 20 percent levels, although it did allow for heavier temporary tariffs for infant industries (Jordan). The recommendation of the Washington Consensus to remove government-imposed barriers to imports, exports, foreign investment, and foreign currency transactions was a sharp contrast to the long-held conviction in countries, like Argentina, that developing countries needed to protect their economies from exploitative international system (Fads and Fashion in Economic Reforms). Yet, because of more neoliberal policies, the average tariff levels, maximum tariffs, and non-tariff restrictions in the region of Latin America all declined by more than 50 percent between 1985 and 1995, at the height of neoliberal reforms (Jordan). As shown, neoliberal policies have a clear association with trade, but the relationship between populism and trade is much less evident. This paper asks if trade is a critical part of populism, and ultimately confirms the null hypothesis.

OVERVIEW OF POPULISM

This paper views populism, a style and rhetoric of politics seen frequently in the leadership of Latin America as a region and Argentina specifically, as a top-down political mobilization of mass constituencies by personalistic leaders who challenge the elite, either political or economic, on behalf of a vaguely defined people (Levitsky and Roberts 6). The elements of populism are 1) the use of state resources, 2) a goal of maintaining a coalition of both elites and anti-elites, and 3) an objective of undermining the brakes that limit executive power. In democratic constitutions, there is a series of articles designed to prevent the president from doing what he or she pleases without oversight. The first part of this definition is important, as populism always needs a durable source of resources in its battle against institutionalism. To support itself, populism needs to take sole control of state resources. Although no political leader likes to live in a world of checks and balances, some presidents are more respectful of the counterweights in place than others. These presidents comply with the orders of the court, respect the Central Bank's autonomy, cooperate with the opposition when appropriate, and respond to journalists' questions; presidents that do the opposite compete for the title of populist. Inherent to populism is a bipolar coalition of elites and anti-elites, a group of two extremes that creates a possibility of a battle against the breaks and counterweights imposed on the executive power. The first extreme is that of marginal social sectors, typically the workers and peasants. The second extreme is that of the elites, or groups with political privileges before the arrival of the populist. In the case of Juan Domingo Perón's classic populism, this meant members of the military and great industrials. The government offers members of the elite large contracts and protections, and they offer the anti-elite sectors positions of employments, subsidies, and welfare programs; the citizens not considered to be part of their movement receive little (¿Qué es el populismo? 1-2).

Most populist figures, including many discussed here, cannot be clearly placed on the conventional left-right continuum (Levitsky and Roberts 6). Despite this lack of defined populist ideology, there are still some patterns in the practice of populism. Common populist goals in the past have been the mobilization of support from organized labor and lower-middle-class groups; the achievement of complementary backing from domestically-oriented businesses; and the political isolation of the rural oligarchy, foreign enterprises, and large-scale domestic industrial elite (Kaufman and Stallings 8). Populists that lean to the eft tend to promote income distribution, state intervention in the economy, and, above all, welfare programs. Populists that identify more with the right end of the political spectrum tend to use the ideology of national security to promote populism, and also typically promote spending on infrastructure (¿Qué es el populismo? 2). These political objectives are by fed economic dissatisfaction and by initial feelings that the country's situation can be improved upon. When political policymakers assume leadership, they are known to reject the conservative paradigm and refuse to acknowledge or abide by any macroeconomic policy constraints, leading to policies that emphasize reactivation, redistribution of income, and economic restructuration. The latter is done to save on foreign exchange and support higher levels of growth and real wages (Dornbusch and Edwards 9-10).

Populist leaders usually make use of the economic tools of budget deficits, nominal wage increases combined with price controls, and exchange-rate controls. The budget deficits stimulate domestic demand, the wage increases stimulate income redistribution, and the exchange-rate controls cut inflation and raises wages and profits in specific sectors (Kaufman and Stallings 8). Historically, most populist movements have been classified by three key features: multiclass incorporation of the masses, primarily urban workers, but also middle-class sectors; a paternalist, even charismatic, leadership that mobilizes from the top down and makes such a multi-class coalition possible; and integrationist, nationalist development programs that allow the state to push both ISI and redistributive measures for populist supporters (Drake 36).

The macroeconomics of populism can be divided into two topics: the properties of the economy's real equilibrium and macroeconomic adjustment. In terms of the first topic, populism makes the assumption that the economy can do better, and calls for increased government spending to accomplish this vision. In terms of the latter topic, populist policies call for the heterodox programs of price and exchange controls, combined with the freezing of wages and public tariffs. Inflation is considered a consequence of income struggle, and demand expansion is not considered inflationary. The basic strategy should theoretically focus on an agreement between economic groups to stop the income struggle (Sturzenegger 79).

Populist administrations can usually be divided into four phases: diagnosis and prescription, bottlenecks, desperation, and stabilization. In the first phase, policymakers are justified in their economic policies, as the economy experience high rates of employment, real wages, and output growth. In this stage, macroeconomic policies employed by the government are successful. This success begins to encounter obstacles in stage two, however, with economic bottlenecks compounded by an increase in domestic demand and a growing lack of foreign exchange. This struggle escalates in phase three, and it becomes clear that the government is in a desperate situation. In this stage, there are shortages, a large expansion of inflation, and a foreign exchange gap that creates capital flight and demonetization of the economy. The budget deficit, which was a policy tool used to stimulate domestic demand, backfires and deteriorates violently, resulting from a decrease in tax collection and increasing budgetary demands with subsidy costs. The government often attempts to handle this through decreasing subsidies and by a real depreciation. Additionally, real wages, which the government had tried to increase, fall massively. During this phase, many policies are unstable. This instability is addressed through an orthodox stabilization in the form of a new government, a transition in the form of a major political change (Dornbusch and Edwards 11-12).

POPULISM IN LATIN AMERICA

Populism has typically ravaged countries with high inflation and the collapse of the economic situation, and has often required the populist country to turn to the IMF to implement a restrictive and costly stabilization program (Dornbusch and Edwards 1). Despite what appears to be a self-destructive element of populism, there must be a reason for this political repetition, leading to the assumption that populist leaders may have some kind of larger strategy. From one perspective, populism provided a coherent political response to the dislocations caused by the increasing tempo of industrialization, social differentiation, and urbanization. Furthermore, while it may appear that more recent populist leaders have forgotten the drastic negative effects of previous populist experiments, considering the political and institutional incentives and constraints can shed light on the policies as rational responses to imperfect political incentives (Alesina 43).

In addition to strategic considerations, populism seems to be more compatible with the politics of Latin America specifically, to the point that Kaufman and Stallings argue that populism is rooted in Latin America's distributive political struggles that began at the beginning of the twentieth century. The strong export oligarchies that dominated Latin American politics in the beginning of the nineteenth century resulted in a high concentration of income and assets as well as a sharp division between employers and workers in industry and services versus the primary products export sector controlled by the traditional oligarchy, two characteristics that made Latin America distinct from other regions.

These sharp class and sectoral divisions proved to be a fertile breeding ground for populism in many Latin American countries. Highly unequal societies place upper-income groups in a good position to resist direct taxation, which placed a major limit on the capacity of Latin American governments to deal with distributive pressures in their country within the constraints of a growth-oriented export model. Additionally, in practice, the ISI policies proved to be a link to populism. ISI provided intellectual justification policies that resulted in populism when carried to extremes. ISI placed an emphasis on the domestic market, the logic of which led to justifying large wage increases and higher government spending, both of which continued easily into populism. The focus on domestic markets also allowed for policies that protected new internal markets, specifically high tariffs and overvalued exchange rates. The industrialization process itself created groups that supported the ISI policies, and, in turn, the populist policies. The new domestic industries protected through ISI policies, along with the public sector, provided the main source of employment for the urban middle classes and blue-collar unions, which were also the groups in the best position to mobilize in support of income distribution. These groups experienced short-term gains from policies that combined fiscal expansionism and an overvalued currency.

Several other factors have contributed to the prevalence of populist policies in Latin America. Incentives for politicians for the anti-elite coalition of unions, white-collar employees, and import-substituting industrialists that characterizes populism are relatively weak in systems where one or two multi-class parties systematically provide governmental elites with stable electoral majorities. However, other times, groups in the popular sector give their support to parties that are consistently excluded from electoral competition or where the electoral system is comprised of multiple parties that struggle to organize stable majorities. These systems are much more likely to provide incentives for a populist coalition. This helps to explains why Argentina, Chile, Brazil, and Peru, which are countries with exclusionary or unstable electoral systems, have been the most prone to populist political cycles. Finally, political regimes can provide an explanation of the tendency towards populist policies. The three types of regimes in Latin America are authoritarian regimes; democratic regimes; and traditional democracies, which take place when an authoritarian regime begins to change to a democratic regime. An authoritarian regime is likely to occur in countries with exclusionary or multiparty systems, which already have populist tendencies. This is compounded with the pent-up economic demand that transitional democracies often encounter. In new democracies, institutional uncertainties tend to shorten the time horizons of political parties, moving the focus towards the short-term policies advocated by the populist support base (Kaufman and Stallings 19-26).

A RETURN TO POPULISM?

At the end of the Cold War and with the collapse of the Soviet bloc, political and economic liberalism appeared triumphant throughout the world. The Washington Consensus, which brought the three cornerstones of electoral democracy, free markets, and US dominance, was diffused around the world. Labor unions were in decline, populist and leftist parties were in disarray to the point of being nonexistent, and neoliberal politicians were in control of policymaking areas (Roberts 2). Even when leftist and populist candidates ran as leftist candidates, they usually governed as premarket conservatives. The debt and inflationary crises the region had experienced in the 1980s had discredited the state-led model advocated by the left, limited the governments' policy options and pushed them towards the free market policies that were advocated by the US government, the World Bank, and the IMF (Levitsky and Roberts 2). Although the privatization that occurred as part of neoliberalism faced opposition, it seemed that other neoliberal policies, such as free trade and foreign investment, saw broad support from the public. In fact, many neoliberal politicians were reelected, especially when they successfully dealt with hyperinflation in the economy (Roberts 12). US-style capitalism seemed to be completely dominant in the region.

However, since this balance was sustained and reproduced through democracy, it was vulnerable to destabilizing forces. Particularly important were financial crises and the renewal of popular mobilization (Roberts 3). The region experienced marginal growth between 1990 and 1997; this ended in most Latin American countries in the late 1990s. Between 1998 and 2002, Latin America experienced negative per capita growth, as well as increases in both poverty and unemployment. In 2002, 60 percent of families in Latin America reported an adult member of their household had been unemployed in 2001. The economic stabilization and economic growth that did occur in the 1990s still failed to bring citizens out of poverty or solve the issues of inequality and social exclusion. In 2002, 44 percent of the population lived in poverty. The region also had the most unequal distribution of income in the world, and this inequality only continued to increase in the 1990s (Levitsky and Roberts 3, 7-9). In fact, Jamaica is the only Latin American country that is not significantly more unequal than would be expected based on its level of wealth. This left the median voter in most Latin American countries prone to support redistribution of wealth (Cleary 37). This was compounded by the fact that rights of social citizenship established under populism, including employment security, old age insurance, and collective bargaining rights, were removed under the policies of neoliberalism, which temporarily undermined the capacity of the poor to organize against social exclusion (Roberts 3). The withdrawal of much of this social protection was seen as an abandonment of the people to their own luck, which led to social resentment and indifference toward political institutions (Gallegos 2). Thus, this created a tension between democratic citizenship rights and the extreme forms of social inequality found throughout the region of Latin America, as the global markets severely limited the policy options of Latin American leaders, diminished democracy, and conflicting with citizens' expectations that that states defend their national political autonomy (Roberts 4).

The economic crisis facing neoliberalist leaders hurt incumbents across the region, with 70 percent of survey respondents across Latin America expressing dissatisfaction with the performance of the market economy, which denoted a sharp decline in the public support for the Washington Consensus (Levitsky and Roberts 10). Although there were new opportunities for the left to mobilize in the region, the long-term changes in the global economy from neoliberalism and the recent short-term economic shocks reduced the feasibility of traditional state interventionist and pro-labor policies that populism and leftist parties had both often rallied around. This was further exacerbated by the debt crisis, as international financial institutions restricted the policy options Latin American countries could choose from. This required the labor-based parties to take a slightly different approach in order to regain traction, such as increased acceptance of market liberalization, looser ties to unions, and an appeal to new electoral support bases (Burgess and Levitsky 883-884). In Argentina specifically, the Peronist party underwent a dramatic transformation in which it severed linkages with organized labor and became more patronage-oriented, a change that allowed the Peronist party to retain its electoral competitiveness (Etchemendy and Gray 285). This tactical shift, combined with the environment of Latin America's recent transitions, made the late 1990s and early 2000s an ideal time for a left and populist resurgence (Cleary 40).

Even so, the unpreceded wave of electoral victories by leftist presidential candidates in Latin America, beginning with Hugo Chávez's election in Venezuela in 1988, still shocked the rest of the world (Levitsky and Roberts 1). This new trend brought new social and economic policies to the region, changing not only who governed in the area, but also how they governed. Néstor Kirchner was elected president of Argentina in 2003 with the support of the mainstream Peronist machine, but only a slim margin of victory. Kirchner received only 21.99 percent of the popular vote, as opposed to Carlos Ménem's 24.34 percent. This vote required a runoff, but the election was handed to Kirchner when Ménem pulled out. This left Kirchner with the smallest number of votes in the history of the country's elections (Country Profile: Argentina).

Over the next decade, the resurgence of the left only expanded, partly as a result of the commodities boom in 2002. Just as poor economic growth had hurt the country's right-oriented incumbents, soaring export prices worldwide created the highest growth rate Latin America had seen in decades and, in turn, support for the leftist leaders that governed during this growth. The commodities boom also allowed parties to actually govern on the left. In the 1990s, even left-of-center governments in the region reluctantly adopted more conservative policies in the face of balance-of-payment shortages and fiscal constraints. The left now had, however, new resources, and, subsequently, new policy freedom with a newfound independence from the US and international financial institutions. The left was able to use these resources to invest in social welfare policies that the left was known for without facing the foreign exchange crises that had characterized more populist administrations (Levitsky and Roberts 10-11). In Argentina, this deepening of the left resurgence manifested itself in the 2007 election. Kirchner's wife, Cristina Fernández de Kirchner, won the election with 44.94 percent of the vote, while the second place candidate, Elisa Maria Avelina Carrio, boasted only 22.95 percent of the vote (Country Profile: Argentina).

The Kirchner administrations fall under the spectrum of populism as a political movement, but it is distinct from the previous forms of populism that Argentina had seen, which failed to clearly fit into a place on the classic left-right spectrum. As defined earlier, populism and the left are not phenomena that necessarily coincide, and they can often exist in tension which one another. The Kirchner's form of populism, however, had an obvious leftist tilt, although their party, the Partido Justicialista (PJ), did not. In this case, the left refers to political actors who aim to reduce social and economic inequalities as a primary objective. Leftist parties use public authority to redistribute wealth to lower-income groups, shake up social hierarchies, and give traditionally disadvantaged groups a larger voice in the political process (Levitsky and Roberts 5). Historically, most leftist groups attempted to accomplish the latter goal through violence, revolution, and other anti-systemic groups, meaning they exhibited a significant break with their past in terms of strategy. Instead, they competed for elected office, usually by either reorganizing as electorally viable political parties or using already established parties with left-of-center views as allies (Cleary 41).

Gallegos further divides the left that made a comeback in Latin America beginning in the late 1990s into two different forms. The first is pragmatic, sensible, and modern, and can be seen in Chile, Brazil, and Uruguay. This form accepts the predominance of the free market with resignation. The leaders of this type of left have accepted the political rules currently in play and work to compromise with democratic institutions with an understanding that politics is a gradual method of changing the popular agenda. The other type of left is demagogic, nationalistic, and populist, and can be found in Venezuela, Bolivia, Mexico, and, most notably, Argentina. This idealist form is not only anti-neoliberal, but also has a tendency to become anti-capitalist and to advocate the dismantling of the free democracy. Its leaders consider the rule of law and democracies as formalities that cannot and will not inhibit the expression of the popular will (Gallegos 1).

Overall, the Kirchners embraced populism by using policies and state appointments to integrate popular actors, through social movements and labor unions, to their governing coalition. This worked to their benefit, as these allies became vital supporters of their government, which came in with a precariously low level of the electoral votes. Typical of leftist administrations, which challenge business and financial interests, the Kirchner governments clashed with domestic business on regulatory issues. Despite the mobilization of low-class actors and these financial challenges, which created a heightened political polarization, the Kirchner administrations remained completely democratic. Even so, they maintained a middle ground in terms of left populism at that time. They valued economic growth over controlling inflation and developed a good relationship with the Argentine Industrial Union, the premier national industrial association. At the same time, however, they were cautious in other areas; for example, they were unwilling to reverse the major privatizations of the 1990s (Etchemendy and Gray 284-285).

OVERVIEW OF THE KIRCHNER ADMINISTRATIONS

The Kirchner cycle of 2003 to 2015 is the longest period in Argentine history, even surpassing both presidencies of Julia Argentina Roca combined. Gerchunoff and Kacef describe an anecdote of the Kirchner family on May 25, 2003, the day Néstor Kirchner took office, in which the newly-inaugurated president asks of his family, "What do we do now?" The policies during the Kirchner administrations were pure present and pure urgency; in other words, they showed a clear preference for the present and for the immediate future. This "what do we do now" mentality was a thread that connected the three periods of the Kirchner administrations: 2003-2008: the rugged ascension towards political climax, 2008-2011: the response to and recovery from international financial crisis; and 2011-2015: peak of power and macroeconomic disequilibrium (Gerchunoff and Kacef 3). This section provides an overview of the Kirchner administrations through these periods, and Table 1 presents a summary of the macroeconomic, regulatory, labor and social policy enacted between 2003 and 2015.

Table 1: Summary of Policies During the Kirchner Administrations

Macroeconomic and Financial Policy • Achieved exchange rate depreciation through Central Bank intervention in capital inflows • Exchange rate depreciation favored tradable productive sectors and consolidated the fiscal front • The government refused to agree to specific policies in exchange for new funds from the IMF and the World Bank, eventually canceling all liabilities • Expansion of universal price subsidies and state infrastructure and spending • Fiscal surpluses were a result of high commodity prices combined with debt rescheduling, nationalization of private pension funds, and export taxes
Regulatory Policy • Worked to protect the popular sectors' short-term income through price controls on public utilities; subsidies to businesses in areas including energy, transport, and food production; and export taxes and quotas on wage goods and primary food crops • Increased domestic prices resulting from high internal prices and local demand were regulated by price controls • The government controlled the price of public utilities • The government used direct monetary infusions to keep prices down
State Ownership • Did not push a major expansion of state ownership of production

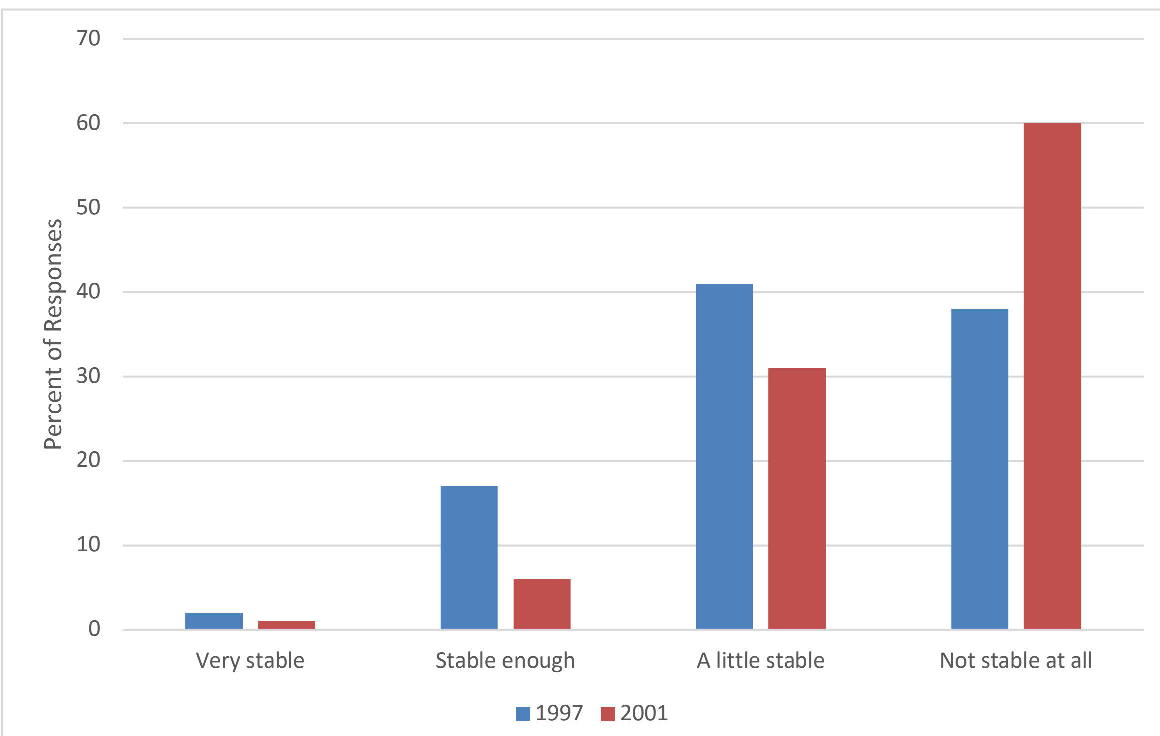
• The major privatizations of the 1990s were not rolled back • Nationalization only occurred in cases in which severe conflicts erupted over price rates and market conditions
Labor Policy • Collective wage bargaining was virtually absent, and industrial conflict was largely suppressed • The government was reluctant to restrain strikes, stating that it was the natural way for workers to recover real wages • The government intervened in wage policy by stipulating nominal wage increases in the private sector and by increasing the minimum wage • Creation of new regulation is labor law and health policy for unions • Completion of a national round of collective bargaining to negotiate a minimum wage and a wage-increase parameter
Social Policy • Expanded access to social transfers and pensions • Created difference employment schemes and extended family allowances to low-income children • Expanded and nationalized the pension system to universalize coverage and capture pension rents as a source of funding for social policy • Passed a large extension of universal family allowances directed to households outside the formal labor market that included incentives for school attendance and regular health checkups

Source: Etchemendy and Gray

THE YEARS LEADING INTO THE KIRCHNER ADMINISTRATION

An unprecedented crisis struck Argentina in 2001, generating changes of enormous magnitude in income and wealth distribution. Many Argentines had previously seen the monetary regime of Convertibility as an untouchable economic situation, but the external financial restriction seemed impossible to overcome, ending in the abandonment of Convertibility, an unprecedented level of unemployment, and increases in poverty and real wages (Gerchunoff and Kacef 2004). The government defaulted on its debts, the peso devaluated by almost 75 percent, unemployment reached 22 percent, and the banking system collapsed. There was also a profound effect on politics; two presidents resigned between October 2000 and August 2002. The same period also saw five different ministers of the economy, as well as five cabinet crises and one Senate crisis.

Table 2: Perceived Economic Stability in Argentina



Source: Latinobarometro

This shocked both Argentines and many scholars, given that the 1990s was one of the most stable periods in the country's history. Argentina introduced such extensive market-oriented reforms that the Heritage Foundation ranked the country's economy among the "freest" in the world in 1999. A constitutional change made in 1994 alleviated much of the interparty animosity that had characterized the previous decades, and Argentina between 1991 and 1998 exhibited peaceful transfers of power and stability on both the economic and political fronts that was unlike anything seen in the country's previous 60 years. Going from this kind of stability to such a severe economic crisis brought about a volatile political climate, creating candidates that protested the ideals of the Washington Consensus and the market-oriented reforms implemented in the 1990s (The Politics of Argentina's Meltdown 29-30).

Yet, surprisingly, Argentina began to recover in the second half of 2002. The devaluation of the currency made products inexpensive for individuals who had saved dollars, promoting internal spending as part of the so-called "wealth effect." The offer of exportable goods and services also reacted to the low prices, creating a combination of both an increase in the supply of tradable goods and services and an increase in the demand of non-tradable goods and services. This resulted in a spending multiplier effect, which translated into increased levels of employment and improved wages for workers, although these elements were coming from historically low levels to begin with (Gerchunoff and Kacef 5).

2003-2007: The Rugged Ascension towards Political Climax

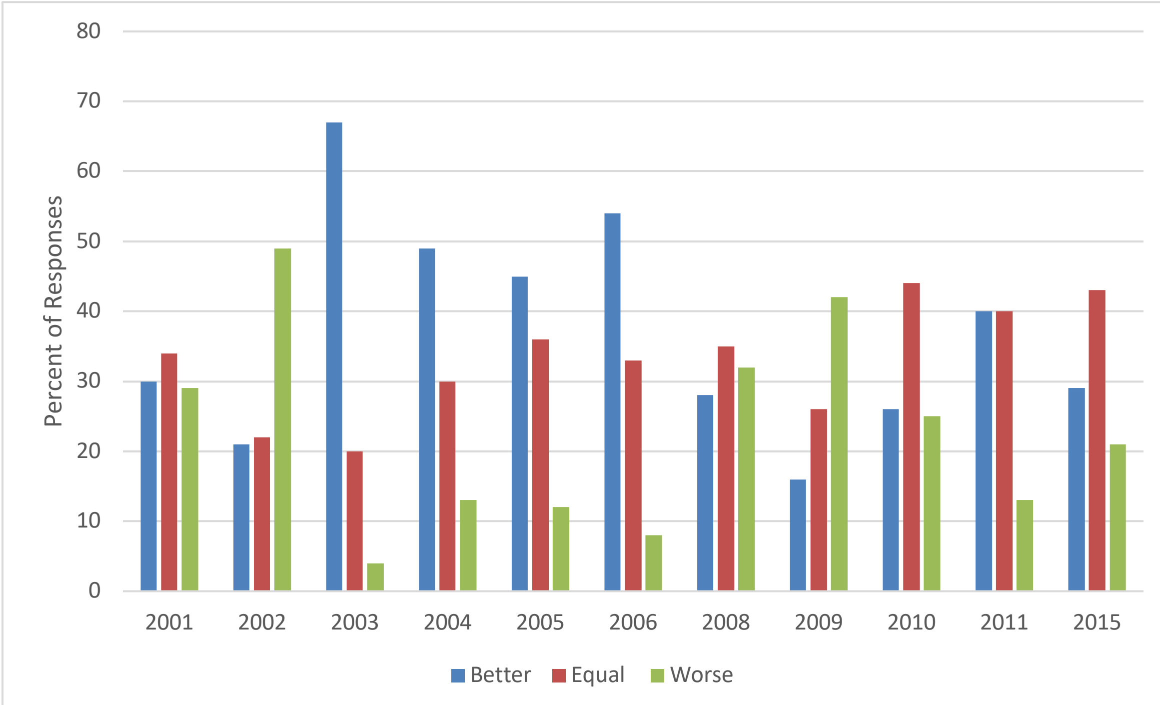
Kirchner assumed office in 2003 with limited real power, boasting only 22.24 percent of the votes. His only coalition had been imposed by Eduardo Duhalde before him, he had a cabinet of only a few departments and secretaries, and only a few legislators that responded to his authority (Gerchunoff and Kacef 3). Although it was not reflected in the election, the Argentine people seemed ready for a change. In 2003, 25 percent of Argentines polled stated they had "a lot" of confidence in the president, while 45 percent said they had "some." This was a stark contrast to the confidence levels just two years prior, with only five percent and 20 percent in the categories of "a lot" and "some," respectively. Additionally, individuals had high hopes for the economy, with 67 percent of the economy in 2003 expecting the economy to be better just two months in the future. Although this level of confidence in the economy decreased some over time, it still remained relatively high until Cristina Kirchner took office.

Table 3: Argentine Confidence in the President Over Time

Confidence Level	1997	1998	2000	2001	2003	2004	2005	2006	2007	2013
A lot	6	8	19	5	25	25	16	23	11	19
Some	17	14	34	20	45	42	46	44	32	28
Little	27	27	22	32	16	20	20	19	31	26
None	44	50	20	41	11	12	12	13	25	27
No answer	1	1	2	1	0	0	0	0	0	0
No knowledge	5	1	3	1	2	0	0	0	1	0

Source: Latinobarometro

Table 4: Argentine Future Perceptions of the Economy

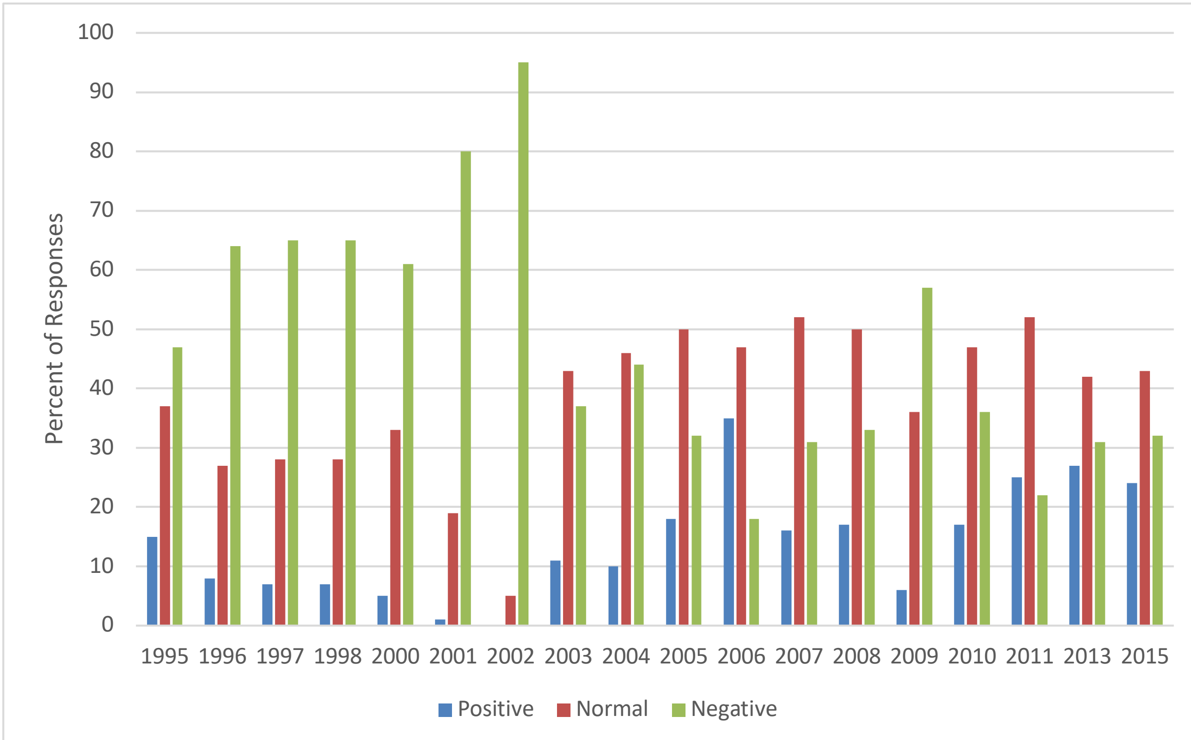


Source: Latinobarometro

A government like this, with few votes and limited authority, has before it two choices: to invest its limited capital in a mixture of short- and long-term policies or to invest only in short-term projects. Although the first option is what is usually considered to be governance, a government can select the second option if it assigns a high probability to negative political shock resulting in political default. With the political default of Duhalde fresh in his mind, and with his chief objective being to try to reactivate the economy as quickly as possible, Kirchner opted for the choice of investing solely in the short-term.

Kirchner became president during a time of improving economic conditions, and, by increasing the minimum wage and minimum retirements, he gave an extra push to what was already moving. When Argentines were asked to grade how the economy was performing, the negative response reached its peak in 2002, with a drastic positive change seen in 2003.

Table 5: Argentine Perception of Economic Performance



Source: Latinobarometro

The Argentine economy was growing 7.7 percent annually during the fall of 2003, but the annual rate had climbed to 8.8 percent by the end of the calendar year. The unemployment numbers were significantly lower those the 21.5 percent recorded in 2002, but about a quarter of the urban population was still living in precarious positions, with 17.8 percent unemployment and 11.8 percent underemployment. This accelerated creation of employment, however, made for additional taxes for Kirchner's policy initiatives (Gerchunoff and Kacef 5). Overall, this period was characterized by a positive macroeconomic performance, with an average annual gross domestic product (GDP) growth of nine percent (Gervasoni and Peruzzotti 129).

In many ways, in terms of policy, Kirchner immediately made decisions that took advantage of this new setting, which was radically different than that of the previous year. At the end of 2001, he decided upon the partial suspension of public debt payments and the abandonment of the "one for one" peg of the peso to the dollar, which had been in place for just over 10 years. He also established taxes on exports and controls on the movement of capital. Finally, he cancelled the link to the dollar of many prices and taxes, which had been instituted in the 1990s along with the privatization of many public businesses and the relinquishing of many public services to private management. In terms of social policy, he implemented a plan to mitigate the negative impact of the crisis on the people of Argentina (Gervasoni and Peruzzotti 116-117).

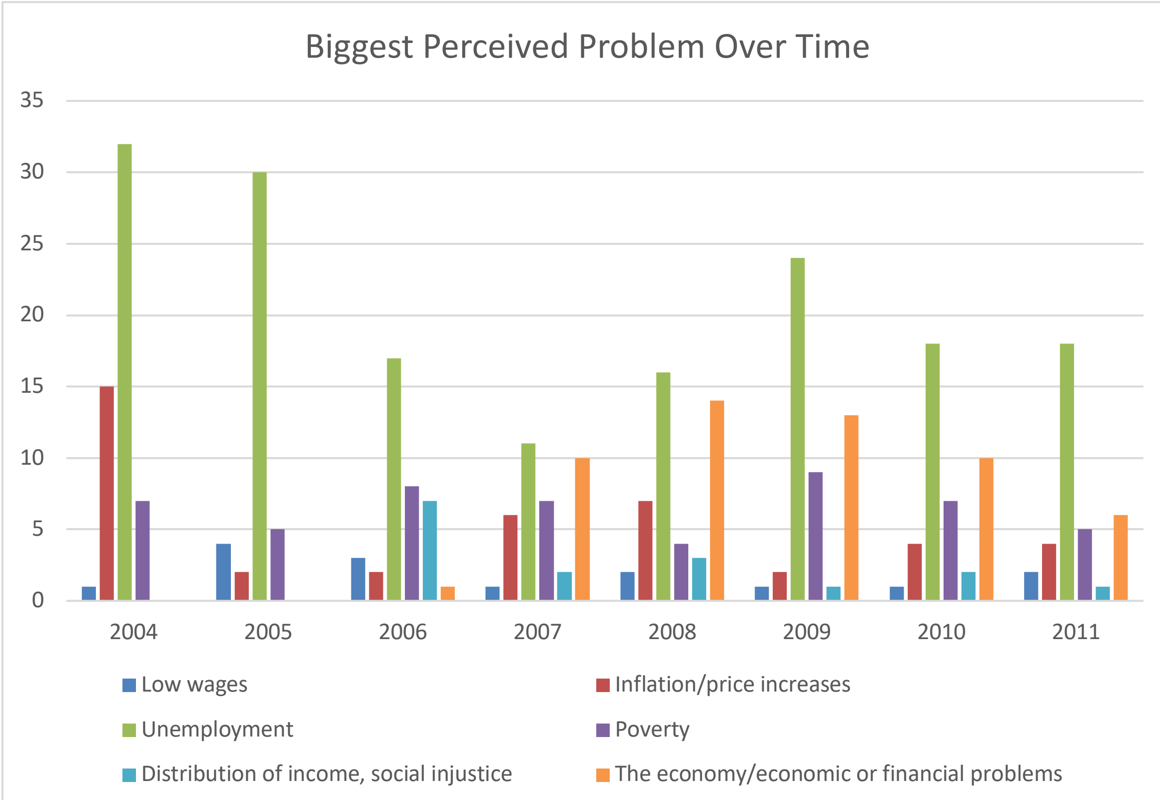
When he took office, Kirchner already knew that he needed to turn the reactivation of the economy into political power. The 2003 election saw about 35 percent of the national vote going to candidates in support of Kirchner, a big step forward from his starting point a few months early. Yet this was still the worst victory margin since the rebirth of democracy in Argentina in 1983, forcing him to form an agreement with the deputies and senators still in support of Eduardo Duhalde's policies, and to fall back on one of his campaign promises: to continue the political economic choices of Duhalde. The most significant of these choices was to keep the executive minister of these policies, Roberto Lavagna, as a member of his Cabinet. This continuity meant, among other things, a nominal exchange rate approximately fixed against the dollar, which was made possible by the depreciation of the dollar towards other currencies and a high real multilateral exchange rate. This was a source of calm to the members of the middle class that had been so shaken by the financial crisis of 2001. It also brought financial tranquility, which propelled a decrease of the interest rate in the larger context of declining international rates. This quickly translated into an increase in investment, a further manifestation of the "wealth effect," and an accelerator of income, which was particularly favorable to tradable sectors in production. The positive modernizing changes made in the productive structure during the 1990s could finally be seen. This dynamic of financial growth and development was accompanied by popular support for Kirchner, and the development strain of the Kirchner coalition took root (Gerchunoff and Kacef 6).

The high exchange rate, which doubled between the end of 2001 and 2003, served as an effective tool that Kirchner used to establish a surplus in the current account balance of payments that would allow the Central Bank to use internal reserves to buy foreign currency, which resulted in a renewed availability of resources to finance public policy. It also had a very favorable impact on the production sector's ability to produce internationally marketable goods (Gervasoni and Peruzzotti 119). Additionally, it was important in preserving a competitive and stagnant real exchange rate, which was gaining relevance in macroeconomic policy. The government even made explicit reference to the importance of preserving a competitive and stable exchange rate in official economic strategy. The Kirchner administration saw a competitive exchange rate as essential for incentivizing growth and job creation (Gervasoni and Peruzzotti 131).

Another tool, although somewhat less conventional, that he made use of was the underestimation of growth for the projections of public income, which allowed for the appropriation of an excess of collection that could be used outside of the assigned budgets and increased the margin of tactical movement. In this way, the government assured the indispensable complement to its strategy of political expansion: the availability of funds for its policies. This was the available efficient path to improving the living conditions of the popular sector, given that Duhalde left Kirchner a legacy that was hard to follow, and that the economy was just emerging from the deepest part of the recession. It also provided a way for him to clear the low voter turnout that handed him the presidency from the minds of the public. Kirchner was in a situation of strong reactivation after a deep recession that he portrayed as someone else's fault, which could only help his image. In fact, he was already on his way to a stronger coalition of support.

Between 2002 and 2004, it was nearly impossible to find a flaw in the economy of Argentina by looking at the outer layer. The continuity between the Duhalde and Kirchner regimes, however, was key for success in this case, and it makes sense to analyze its results together. The annual economic growth rate had fallen to 5.3 percent by the middle of 1998, when Convertibility had reached its bitter end, but began a means of productive rebirth resulting in a GDP annual growth rate of 8.6 percent by the conclusion of the same year. This positive movement continued in other areas as well. Unemployment fell from 21.5 percent, which was its highest point, to 12.1 percent by 2008. This particularly appealed to the people, as unemployment was seen as one of the biggest problems the country was facing during this time, as shown by a survey conducted by Latinobarometro.

Table 6: Perceived Economic Problems During the Kirchner Administration



Source: Latinobarometro

This was accompanied by other improvements in the labor market, including a 27 percent increase in real wages in the formal private sector, following the significant wage decreases after the devaluation. In terms of indicators of significant macroeconomic growth, inflation dropped from 30 percent to 4.4 percent over the course of 2008. The improvement in terms of trade, although moderate, resulted in the doubling of international reserves and additional taxes generated by exports substantial enough to generate a fiscal surplus of four percent of GDP, when combined with the higher volumes of exports coming from Argentina. Finally, low interest rates and the liquidity of financial markets internationally served as incentives for Argentine bondholders on the verge of default to accept longer-term bonds. This created new debt that was larger than the original level of debt (Gerchunoff and Kacef 6-9).

Although the economy was saved from a crash, it was moving ahead at an unsettling speed. As mentioned in the previous section, Kirchner responded to the higher-than-average demand for labor with an increase in minimum retirement, as well as the reactivation of collective work deals a little bit later. The increase in nominal wages translated into an increase in real wages, but this also meant an increase in labor prices. In this way, the economy was placed on a track of growing inflation, despite the fact that the inflation rate was already 12 percent by 2005. With the interests of his political coalition at the forefront of his mind, Kirchner chose an inflationary method of governance, and financed this through the purchase of reserves. During this time, the economy experienced growing real wages in all sectors, unemployed individuals found work or saw a higher probability in finding it, and industry benefited from the high real exchange rate and moderate protectionism; Kirchner used these economic circumstances to gain political terrain. In the intermediate elections of October 2005, Kirchner defeated Duhalde in his own territory, the province of Buenos Aires, and received 38.3 percent of the vote at the national level.

Although this was substantial improvement, it did not definitively end the question of power inside the Peronist party. Through the election, Kirchner ended Duhalde's political aspirations, but, in order to ensure that the county's economic successes were attributed to him rather than to the continuation of Duhalde's economic policies, Kirchner decided to alieve Lavagna of his position in the ministry. Along with Lavagna's removal also came the end of a project he had been working on: a fiscal fund of stabilization, which would entail saving now for hard times or high inflation in the future. Yet saving was a luxury that Kirchner still could not see his administration indulging in, further evidence of his interest in the present rather than the long-term.

Through the end of 2006, there were no major social cracks in Kirchner's coalition, but this could only last as long as the inflation rate did not corrode the real exchange rate, the pillar of Kirchner's strategy for economic reactivation. The inflation rate was becoming dangerously significant, but Kirchner's priority was producing a major win in the October 2007 presidential election. If he decided to address the inflation rate, it could not endanger the performance at the polls or the structure of his coalition. Other Latin American economies allowed for nominal appreciation of the currency to neutralize the impact of the coalition, and this gave way to the implementation of a contractive fiscal policy that would neutralize the transmission of increased wealth to consumption to some degree. This was significant because the expanded consumption increased the inflation rate to some degree. Kirchner decided not to implement either of these options, however, and instead took fiscal policy in the opposite direction. He transferred the collection to the fringes of society with a better marginal propensity to consume, giving a new push toward growth and assuring the electoral victory in the upcoming presidential election. The view of inflation in the government was that it was the result of distributive conflict, and it saw distributive conflict as a natural aspect of the economic process that needed to be managed, although not through contractive policies (Gerchunoff and Kacef 9-12). The government's decision not to fight against inflation was a turning point in the administration, as inflation was deteriorating competition. Once Kirchner instead decided to confront the external disequilibrium with trade controls, rather than dealing with the inflation rate, it was very difficult to have a rational administration in terms of trade (Llach).

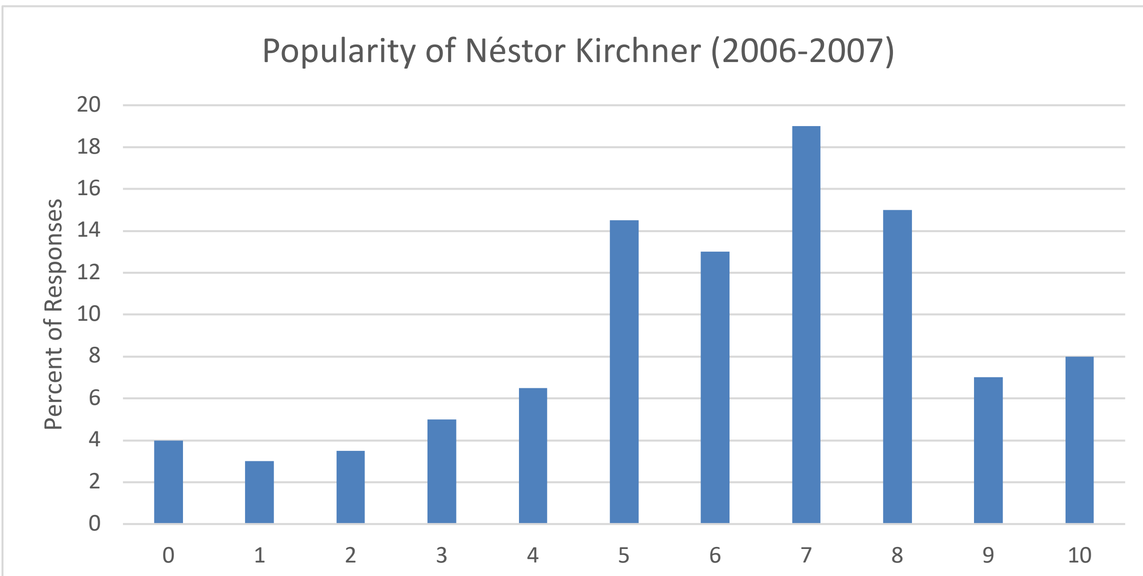
Somewhere between the beginning of 2006 and the middle of 2008, the external terms of trade skyrocketed, leading to benefits of around four percent of annual GDP. This increased the perceived wealth and increased demand. Especially because the individuals that had a high marginal propensity to consume benefited the most from this new wealth, the increased demand created an added pressure on the inflation rate. Furthermore, the prices of exportable goods increased, although the nominal exchange rate. By the start of 2006, prices had already increased by 20 percent annually. Although the shock of international prices was favorable, it was linked to the inflationary problem Kirchner's policies tended to create (Gerchunoff and Kacef 12-13).

2007-2011: Internal and External Turbulence

Kirchner's response to the growing inflationary problem was simply to sweep the problem under the rug, postponing any economic solution. In January 2007, he decided to understate the true inflation rate in the official statistics. It is likely that is doing so, they also underestimated the consequences of the problem. Additionally, the inflationary underestimation left the economy without a key indicator that could be used to construct a domestic capital market in indexed pesos, but this was not an immediate source of concern for the government. The primary concern was simply the October election. The election was nuanced, with persistent accelerated growth, a reduction in unemployment, and redistributive policies, but also growing inflation, albeit hidden.

Although Cristina Kirchner won the election in the first round with much more comfort than her husband, many attribute this less to her own merits and more to the fragmentation of the opposition. In terms of overall percentage, Cristina Kirchner won with the poorest vote percentage of any Peronist candidate since 1946 and of any candidate, independent of party, since 1983, with the exception, of course, of her own husband. Kirchner was leaving office, however, with a more or less positive perception, one that his wife hoped to build on.

Table 7: Popularity of Néstor Kirchner on a 1-10 Scale



Source: Latinobarometro

This victory gave way to a worry on the macroeconomic front: adjustment was necessary to contain inflation. Following the expansionary policies leading up to the 2007 campaign, Cristina Kirchner decided to take a sort of break, with a decrease in public spending that had been increasing so significantly in previous years. Instead, the government increased retentions, which had the immediate effect of directly cutting costs, while also being less costly politically.

In Argentina, there was no historic precedent in agricultural rebellions against an increase in taxes on exporting. When Néstor Kirchner took the first step toward increasing an export tax, there was no reaction, but there was a much different reaction with Cristina Kirchner took a second step in this direction through a system of mobile retentions that placed a strong pressure on the farming sector. Their open resistance led not only to the Kirhners' first defeat in the area of street mobilizations, but also a significant parliamentary defeat in June 2009. Yet the biggest defeat was that the coalition of support lost both the farming sector and, at least for some time, the middle classes as well. The government had arguably become victim to an ancient problem in the country: the profit of revalued natural resources was seen by citizens as private, meaning that transferring part of this profit to the State created some degree of conflict. Other countries, such as Chile, Bolivia, Mexico, and Venezuela, all mining and petroleum-centered, were starkly different in that natural resources were largely considered State property.

Almost simultaneously, Cristina Kirchner was confronted with external turmoil in the form of a brief, yet intense, worldwide recession lasting approximately from spring of 2008 to winter of 2009. Countries around the world reacted to the economic contraction and the unemployment increase with more protectionist policies, causing international trade to contract as well (Gerchunoff and Kacef 12). The crisis had two primary effects worldwide in terms of trade. The first was a clear fall in the level of activity, translated most notably through a decrease in imports. The second was a change in trade policies. The Global Monitoring Report of May 2009 noted many countries implementing trade policies against the crisis, including the United States, England, France, Germany, Italy, Russia, Canada, China, India, Indonesia, Malaysia, and countries in the Mercosur. This dramatically reduced trade throughout the world, as each country that cut off additional problems created a sense of autarky throughout the world. In fact, according to the World Bank, 85 percent of trade policies proposed between the start of the crisis and February 2009 has a restrictive character. Only a third of these policies consisted of an increase of tariffs, leaving the majority to be non-traditional measures (Kosacoff and Mercado 36).

When the crisis hit, however, Argentina was in a relatively stable position to absorb the economic crisis, which was transmitted between nations mainly through trade flows and financial flows. Argentina approached the crisis with a substantial store of reserves, an important excess in the current account, and a financial surplus in public accounts (Gervasoni and Peruzzotti 137). Still, in terms of trade, Argentina was a price taker and depended greatly on the other countries in the Mercosur, especially for industrial goods. Because of these two structural aspects, Argentina still had significant exposure to commercial shocks in the form of variations in the terms of trade and in import demand from other countries in the Mercosur (Kosacoff and Mercado 43).

Despite the relatively solid position, Argentina showed signs of being hit heavily by an international crisis, specifically through financial isolation in the public sector (Gervasoni and Peruzzotti 138). Exports decreased by 20 percent and imports by 32 percent in 2009. As a consequence of the growing fear the recession inserted into society, consumption and investment fell. The good news, however, was that inflation decreased by more the half, allowing real wages to increase and placing inflation on the route to a recession spiral. The government had an opportunity for anti-cyclical policy similar to that which was being unfolded in other Latin American countries. This anti-cyclical policy did create a moderate increase in public spending, but, since it was limited by the unavailability of capital markets and the scarcity of funds, this expansive impulse was much less significant than what was seen in neighboring countries. Without access to financial markets, and with the default of 2002 still in mind, the government opted for more economically prudent policy, but they coupled this with political audacity in the form of an attempt to nationalize the pension funds that Ménem had privatized during his administration (Gerchunoff and Kacef 13-18).

In a test of her performance in the recession, the intermediate legislative elections of 2009, Kirchner-supporting candidates failed to receive even 30 percent of the vote, the worst Peronist election in democratic times. The defeat naturally carried with it a loss of support in all social sectors. The government needed to respond quickly, and did so with the November 2009 decree that put the Asignación Universal por Hijo, a policy of conditional transference similar to that of Mexico and Brazil, into action, in hopes of regaining votes. The government's priority was reconstructing its majority coalition, and the future lost its value in comparison to a focus on the short-term. The short-distance race had already begun, and Cristina Kirchner was looking at tools from fiscal expansionism to exchange appreciation to reach the end goal of electoral validation.

The brief international financial crisis had left in its wake an extraordinarily low interest rates internationally and a depreciated dollar, creating an upward trajectory in the price of primary goods, much to the benefit of Argentina and other countries that had similar productive structures. The year 2010 saw growth of 9.6 percent according to official statistics, or about 8.2 percent according to private estimates. This dynamic was maintained in 2011, but this was not sufficient with the October presidential election in view. Cristina Kirchner's government adopted the policy of depreciated the currency to hopefully create a lower level of inflation, as well as put into action an additional policy that her husband had already experimented with: the freezing of domiciliary taxes on the public services of transport, specifically in the populated metropolitan area. Not only was this an electorally appealing move, but she knew she could also maintain stable inflation. This tax delay affected investments in infrastructure, and the government promoted the idea that consumption takes precedence over saving and investment. This electoral strategy still needed, however, strongly expansive fiscal policy. The public spending of the national administration, in terms of GDP, was higher in 2011 than any other year in the history of Argentina. Additionally, the financial result was negative during 2011 for the first time since 2003, and this was financed by the Central Bank (Gerchunoff and Kacef 18-21).

2011-2015: Peak of Power and Macroeconomic Disequilibrium

As Argentina approached the impending election of October 2011, there were problems, but there were also successes: economic growth, high salaries, cheap tariffs, exchange rate appreciation, expansion of public spending, fiscal deficit, and the financing of this deficit through the Central Bank. With an environment reminiscent of the first Peronism, but still in a moderately open economy, Cristina Kirchner achieved 54 percent of the vote in the October. Although this undebatable electoral triumph that earned a spot in the range of traditional Peronists could have buried the "what do we now" mentality that had originated in a moment of political weakness, this victory was obtained in the middle of a macroeconomic disequilibrium and a time of new political economic problems for the country.

In order to address the negative current account balance of payments, the low levels of foreign direct investment, and the falling reserves of the Central Bank, the government faced for options: monetary policy, which would increase the interest rate; a depreciation of the currency; a combination of monetary policy and currency depreciation; and control of the exchange terms. Through vehemently ruling out all other options, Cristina Kirchner chose control of exchange and a generalized system of import approvals through the process of elimination. With this move, Kirchnerism now aligned closely with classic Peronism. In the times of Perón, the quantitative import restrictions could keep away a process of import substitutions in consumer goods, but, in the beginning of the 21st century, importing less meant producing less. In other words, the government underestimated the economic efficiency of a policy of exchange control, leading to economic stagnation and a reduction in the electoral base (Gerchunoff and Kacef 22-26).

With a loss in the legislative elections of October 2013, Cristina Kirchner resigned to working politically to define the presidential successor and economically to eliminate the risk of financial crisis. If she was successful in the second endeavor, the likelihood of being able to impose her own candidate in the presidential elections of 2015 increased substantially. In January 2014, the currency was devaluated and inflation was increasing, and the beneficial increase in prices came to an end as interest rates stopped increasing. The opposing candidate won by a small margin in a second electoral round, putting an end to the period of Kirchnerism in Argentine economic and political history (Gerchunoff and Kacef 27-28).

Overall, the period of the Kirchner administrations follows the four stages of a populist administration established by Dornbusch and Edwards. When Néstor Kirchner took office, he was justified in his policies, and the economy experienced high rates of growth. With an increase in domestic demand and a growing lack of foreign exchange, however, the economy moves into the period of economic bottlenecks. The situation reached desperation as Cristina Kirchner took office, and faced problems such as a large expansion of inflation and a foreign exchange gap. Just as predicted in the populist model, many policies were unstable during this period. This ended with stabilization through the transition of the administration from Cristina Kirchner to the new president, Mauricio Macri.

Strategic Trade Policy and Populism

It is important to study trade policy, as trade openness can result in measurable economic growth, a higher standard of living, more innovation, and stronger institutions and infrastructure. It can also lead to more jobs, even in a situation of high unemployment, and higher real wages. According to the World Bank, open economies grow faster than closed economies, with per capita real income growing more than three times faster for developing countries that lowered trade barriers than other developing countries in the 1990s, with increases of five percent and 1.4 percent per year. Trade and GDP have grown together in region that have embraced outward-oriented development strategies, such as East Asia and the Pacific (Why Open Markets Matter). On the other hand, protectionism makes domestic firms less competitive in the export market, as import barriers raise domestic prices, creating a subsequent rise in export products and a loss in market in market share in the face of international competition. Furthermore, each dollar of increased protection leads to drop of 66 cents in GDP (Protectionism — The Case Against).

The typical economist definition links populism with ISI, import restrictions, and weak trade participation, all of which were seen during the Kirchner administration. ISI is an inward-looking strategy for development designed to promote domestic production of labor-intensive manufactured goods that the country formerly imported. Governing planning and controls can be used to allocate scarce resources only to the industries targeted for development. Early ISI scholars advocated following the policy only as long as necessary to overcome structural obstacles to development (Maxfield and Nolt 50). ISI is a key component of an economic philosophy that argues the most significant engine of growth in a country is domestic demand, despite examples of times in history in which the domestic market has been exploited by monopolies and domestic producers, leading the country to become less and less productive, and of times when international competition proved to be beneficial to countries (Sustaining Trade Reform 74).

ISI was Argentina's primary development strategy following the sharp restriction in foreign market access with the world crisis of 1929. It was not until the end of 1980s that the country transitioned to a policy of economic openness, deregulation, and privatization, marking the end of ISI. The strategy did generate moderate growth until the mid-190s, but it also created short-term macroeconomic volatility. The production structure was split into two sectors, an export-oriented agricultural sector and an industrial sector designated to produce for the domestic market. The government used nominal exchange rate and nominal wage as policy tools to achieve balance both internally and externally. The increase in nominal wages had an expansive effect on GDP, while the wage increase negatively affected the balance of trade, as a result of the increase in the imports of intermediate inputs and a decrease in the exportable surplus (Mercado 151-152).

Industrial policy in developing countries was ubiquitous, but the same level of success was not seen everywhere. For less developed countries, the boom of the 2000s saw high growth across the developing countries, and particularly in countries pursuing heterodox developmental strategies (Haggard 58). The developmental state seen in East Asia was not built on pure neoliberalism or open trade, but rather export-led growth with the simultaneous restriction of imports and foreign direct investment. In the face of external shocks, larger developing countries, especially those with a strong base in natural resources, were able to continue financing ISI, despite the constraints it placed on manufacturing exports. These countries were more likely to deepen their ISI structure than were smaller countries pursuing ISI that both lacked natural resources and faced less promising domestic market opportunities. In East Asia, the external shocks created a search for new sources of foreign exchange in exports, foreign investment, and borrowing. These foreign exchange and resource constraints were actually crucial in creating institutional developments that resulted in enhanced efficiency. The longer periods of ISI that Latin America experienced also had the effect of entrenching unequal social entitlements to the economic structure. Business interests were dependent on protectionism, which only entrenched the strategy even more. On the other hand, East

Asian growth was much more inclusive and based on an implicit social contract (Haggard 55).

In contrast, Argentina has increased its export barriers to a degree and scope that has probably not been matched by any other country, and this was followed by import barriers triggered by the international recession (Sustaining Trade Reform 72). The difference between Argentina's trade policies and those of other countries is dominantly a matter of choice, rather than a factor determined by geography, resource, or economic parameters. Argentina's development strategy sees international trade as merely an avenue for the transmission of global crisis, and politicians in the country have framed trade as a vehicle for exploitation and dependency, rather than as an opportunity for advancement (Trade Reform and Institution Building 608-609).

Additionally, countries worldwide have had to deal with the changing character of trade and developing definitions of what determines strategic trade policy. Traditional theories of trade viewed trade mostly as a mechanism for countries to benefit from their differences in their own comparative advantages in producing goods based on their differences in climate, culture, skills, resources, and more. This theory resulted in the conclusion that trade is dominated by exchanges that reflect the strengths of each individual economy. Although it is still true that the characteristics of a country shape its trade pattern, a large portion of world trade since World War II has come to consist of exchanges that are not as clearly tied to the comparative advantage of countries; instead, trade increasingly seems to rely on arbitrary or temporary advantages (Krugman 7).

Argentina has been a relatively closed economy for the past eight decades, except for a short period of neoliberalism according to Washington Consensus principles in the

1990s. Throughout this period, Argentina's economy has performed poorly in comparison with countries with similar resource endowments that have adopted open policies. For example, Argentina's per capita income in 1930 was 85 percent of Australia's, but it was only 30 percent of per capita income by 2003 (Trade Reform and Institution Building 592-593). During the 21st century, Argentina has put in place more trade restrictions than any other country. With only a small percentage of those having been put in place through formal trade defense procedures, trade control has become a part of the informal sector of government. The below table shows that Argentina has introduced more import restrictions than have most other countries, as well as that the share of discretionary measures is high.

Table 8: Restrictive Import Control Actions (2008-2013)

	Non-tariff measures	Technical and sanitary measures	Tariff measures plus import quotas and import bans	Trade defense measures	All import control measures
Argentina	15	2	123	44	*184*
United States	1	1	8	134	*144*
European Communities	1	0	10	71	*82*
China	7	1	15	45	*68*
Brazil	0	0	41	78	*119*
Peru	0	0	0	14	*14*
Ecuador	2	0	10	1	*13*
Colombia	1	2	10	11	*24*
Venezuela	2	0	6	0	*8*
Chile	0	0	0	5	*5*

Source: Global Trade Alert

TRADE POLICY OVER TIME IN ARGENTINA

1949-1958: THE PERONIST PARADISE AND THE DEVELOPMENT CRISIS

In 1949, Argentina exported $933 million in goods, a drastic change compared to the $1,600 million of the previous year. This meant a reduction in available currency, and this was combined with an increase in the prices of goods that Argentina needed from other countries to place even more pressure on already restricted imports. The country was reaching a point in which it was impossible to contain imports without altering local industrial production, which imported many of its parts. The government needed to be more selective in the assignment of currencies and was gradually enforcing the system of permission for trade that regulated imports and completely prohibited some types of imports. The country also had to return to quantitative import restrictions, which had been abolished in the past.

Table 9: Argentine Commercial Deficit

Year	External Terms of Trade (1960=100)	Exports	Imports
1955	96.9	928.6	1,172.6
1956	87.0	943.0	1,127.6
1957	83.9	974.8	1,210.4
1958	85.1	993.9	1,232.6

Source: Gerchunoff and Llach

Industry, far from being the most dynamic sector in the first years following the world crisis, suffered with the intensification of these controls. Industrial companies struggled through difficulties in importing machines and primary goods and revealed the weakness of the foundations of industrialization in Peronist thought (Gerchunoff and Llach 205-206).

Table 10: Imports Over Time

Period	Imports as Percent of GDP
1925-29	24.8
1935-39	14.8
1945-49	9.8
1950-54	7.3

Source: Gerchunoff and Llach

1958-1963: The Development Impulse

The substitution of imports policy of the previous period continues in this five-year period, and was particularly notable in the automobile industry. The trace of an anti-export trend that could be seen did not come from the government of the time, but the developmental agenda of the administration certainly did not do anything to change the situation. In fact, a pessimism with respect to the possibilities of international trade was a primary theme of the development effort. Just as in the previous period, the Argentine economy was suffering desperately from a lack of currency, and there was no policy in place to prevent this from reaching a critical point. The country seemed incapable of simultaneously combining increases in activity level with an equilibrium in external payments. Each time the economy started to expand, imports of inputs increased, creating with it a rise in the balance of payments crisis (Gerchunoff and Llach 273-274).

1964-1973: An Economic Spring

The political change that brought about the next administration also brought with it a long-awaited growth in exports, following the stagnation in exports between the

1920s and the first years of the 1960s. Argentina was the only country in the world that exported less, in terms of dollars, in 1961 than in 1928. Before the fall that Perón created, the country tried various methods of stimulating production in the agricultural sector, mostly through price incentives and the encouragement of better technology. But it was also luck that helped with this increase in exports, with prices of Argentine exports comparatively high in 1964 and 1965. Additionally, Argentina could export more simply because they produced more. The external conditions and the respective response of producers combined to create a level of production that was much higher than the historical average (Gerchunoff and Llach 297-299).

1973-1983: Economic Vertigo in Violent Times

This age saw the return of Perón, but many of his policies stayed the same as during his last time in office. One substantive difference, however, was that this time Perón continued the emphasis that had been placed on industrial exports. In contrast, the industrialization of Peronism in the 1940s and 50s had mostly been rooted in the internal market. Yet at the end of the 1960s, countries including Argentina, Brazil, Colombia, and Mexico began to adopt policies to promote industrialization and the subsequent export of the industrial goods produced. In this countries, manufactured goods grew to be a fifth of exports, although the number was even higher in Brazil. Perón contributed to this movement with the "law of protection of jobs and national production." While it was extremely protectionist in both name and content, it introduced a series of incentives for the sale of industrial goods determined by the possibilities of each activity. He also announced generous credit and technical support for small and medium business, investing in their export potential. This is an example of one of the many times Peronism changed its strategy in regards to aggregate demand. The year 1973 ended with a trade surplus of US $1,030 million, a historical record and a result of the favorable terms of trade. These increases prices for Argentine exports continued, and created high terms of trade for the period (Gerchunoff and Llach 339-340).

In the years following Perón's second administration, the opening of the economy to international trade was the second most important task in terms of economic efforts, second only to the fight against inflation. The years following this period, the country's participation in trade had been falling steadily, as seen in the statistics of exports and imports expressed as a proportion of GDP. This administration, however, brought about an avalanche of imports, rather than focusing on the other side of the trade balance. In fact, traditional exports were retracted substantially (Gerchunoff and Llach 369). It is unclear how much this import growth depended on the opening of the economy and how much it depended on the retraction of the favorable terms of trade (Gerchunoff and Llach 372).

1983-1989: Democracy and the Struggle to Govern the Economy

During this period, Argentina found itself facing an external debt crisis. The creation of large surpluses required the combined action of an increase in exports and a reduction in imports. There has been a certain margin to squeeze purchases from the exterior, but eventually this arrived at a critical point that weakened the level of activity. The exports side of the spectrum was less painful, but weak demands and low prices led to a decrease in exports of 20 percent. This was compounded by a 40 percent decrease of imports between 1981 and 1983 (Gerchunoff and Llach 387).

1989-2001: Great Expectations, Great Deceptions (1989-2001)

This period in economic history was distinguished less by the intensification of economic ties between countries already open to international influences because of previous decades and more by the speed of incorporation of new entrants to the international economic circuit. The reasoning that encouraged governments to adopt policies that facilitated globalization, in terms of integration into capital and goods markets, was that open economies enjoyed trade expansion and the attraction of more profitable investment (Gerchunoff and Llach 427-428).

At the end of the year 1990, the quantitative restrictions on imports in Argentina had been practically eliminated. If the final objective of the opening was to integrate the countries into world trade, the results were satisfactory. In 1999, the total value of trade was triple that of the value in the second half of the 1980s. Throughout this period, the participation of Argentina in world exports increased significantly (Gerchunoff and Llach 440). Following the years of relative stagnation and starting with a low base, exports and imports grew by 670 percent respectively between 1990 and 1998. Import demand grew fast, as the country had remained closed and underinvested for decades, and the resulting trade and current account deficits were financed with capital inflows such as foreign direct investment. Additionally, world markets for Argentine products were favorable, with exports from the country increasing by 11 percent between 2001 and 2011 (Sustaining Trade Reform 77-78).

Table 11: Trade and Terms of Trade in Argentina, 1990-2010

Year	Imports (US$ millions)	Exports (US$ millions)	Trade Balance (US$ millions)	Current Account (US$ millions)	Terms of trade index (1990=100)
1990	4,077.00	12,353.00	8,276.00	-	100
1991	8,275.00	11,978.00	3,703.00	-	101
1992	14,872.00	12,235.00	(2,637.00)	(5,558.00)	108
1993	16,784.00	13,118.00	(3,666.00)	(8,209.00)	111
1994	20,077.00	15,839.00	(4,238.00)	(10,981.00)	112
1995	20,122.00	20,963.00	841.00	(5,104.00)	112
1996	23,762.00	23,811.00	49.00	(6,755.00)	121
1997	30,450.00	26,431.00	(4,019.00)	(12,116.00)	120
1998	31,377.00	26,434.00	(4,943.00)	(14,465.00)	113
1999	25,508.00	23,309.00	(2,199.00)	(11,910.00)	107
2000	25,280.00	26,341.00	1,061.00	(8,955.00)	118
2001	20,321.00	26,543.00	6,222.00	(3,780.00)	117
2002	8,990.00	25,651.00	16,661.00	8,767.00	116
2003	13,833.00	29,939.00	16,106.00	8,140.00	127
2004	22,445.00	34,576.00	12,131.00	3,212.00	129
2005	28,687.00	40,387.00	11,700.00	5,274.00	126
2006	34,151.00	46,546.00	12,395.00	7,768.00	134
2007	44,707.00	55,980.00	11,273.00	7,354.00	140
2008	57,422.00	70,019.00	12,597.00	6,755.00	156
2009	38,760.00	55,672.00	16,912.00	11,062.00	156
2010	57,462.00	68,134.00	10,672.00	3,081.00	156

Source: National Institute of Statistics and Censuses

The behavior of exports and imports, however, moved in opposite directions. The purchases from the exterior moved in the same direction of the economy, reflecting the reactivation seen in the first years of Convertibility and the opening of the economy. This increase in exports did not mean an increase in specialization of the market, and involvement in manufacturing exports was key. The Mercosur was the primary recipient of industrial exports of the country. Despite this growth, the decade ended with export stagnation, which could likely be explained by a recession in Brazil and external factors that decreased the competitiveness of the Argentine economy (Gerchunoff and Llach 441).

TRADE IN THE KIRCHNER ADMINISTRATION

When Kirchner took office, the circumstances of international trade were changing. The trade policy seen in 2001 is distinct from the trade policy seen during the Kirchner administration, but it also reflected the changing external situation. The policies had to react to challenges such as the financial crisis in the United State that spread worldwide and the growth of China in international markets (Kohn). In some ways, these changes were positive, such as high prices for exports and a high demand for commodities created by quickly emerging economies that were mostly new on the international stage. The devaluation of the peso that was started with the recession at the end of the 1990s deepened the need for a correction in the external imbalance. In the 1990s and in early decades, economic expansions tended to be accompanied by a progressive deterioration in the trade balance, given that imports had a tendency to grow much more rapidly than sales to other countries. After the expansion began in 2002, however, there was a movement in the opposite direction, with high growth rates in GDP and a consistent surplus in the current account (Gervasoni and Peruzzotti 120-122).

Kirchner implemented a return to import substitution upon taking office, reverting to instruments of trade control and displacing regulations implemented by Ménem in the 1990s. Cristina Kirchner especially used widespread import controls, which required approval from the government for each request for the purchase of foreign exchange. Under this policy, a crucial requirement for importing was export-balancing. This falls under much of the same rhetoric as used in the previous decades, including the protection of domestic employment and the need to deal with unfair foreign competition, particularly in regards to imports from Asia (Trade Reform and Institution Building 593-594).

The import restrictions took many forms, including delays in release from customs without an explanation, additional documentation requirements, nonresponses and delayed responses to import license requests, lack of transparency in the decision-making process, and volatility and inconsistency in the application of standards. The element that appeared common throughout the actions, however, was the eventual release of imports being dependent on reaching an agreement with the government on commitments to countertrade, to substituting in the future domestic products for previously imported products, and sometimes even to invest in domestic facilities.

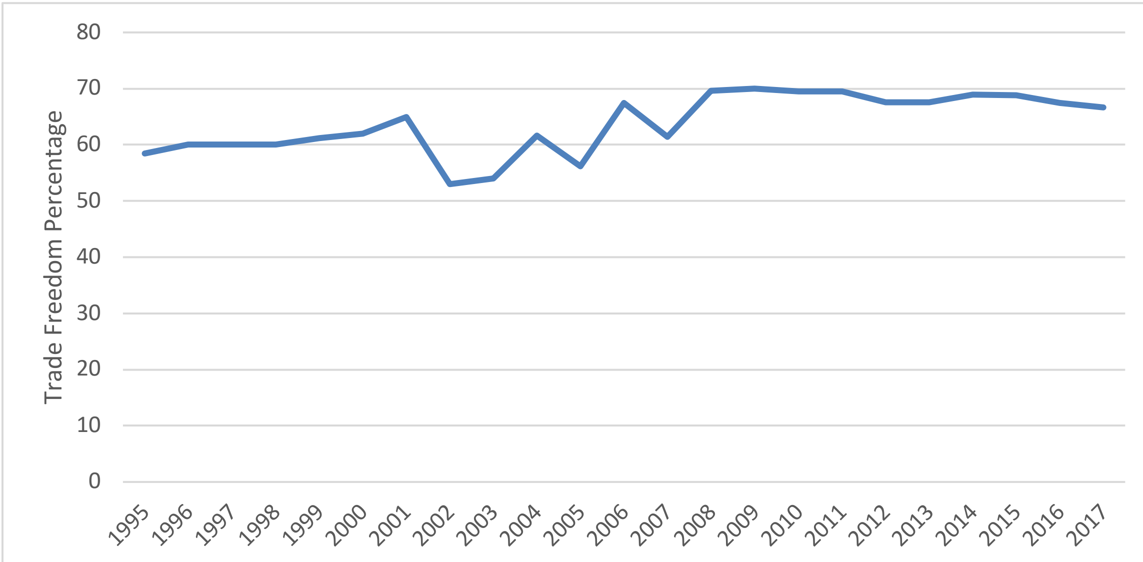
This was accompanied by widespread export taxes, which peaked around 2008, as part of Cristina Kirchner's administration. The taxes began in 2006 in the form of quantitative restrictions, primarily in the agricultural sector of the economy. These taxes were intended to encourage processing at home, and, just like the import restrictions, were largely implemented through informal means (Trade Reform and Institution Building 601-602).

Another difference in trade policy was that interactions with other countries changed. In the 1990s, Brazil was the recipient of more than 30 percent of Argentina's exports. The Kirchners' trade policies increased the number of exports going to Asian countries, such as China, but simultaneously decreased the exports going to Brazil, meaning that a decade later only about 20 percent of exports were going to the neighboring country. This was in part because of a recession in Brazil, but this cannot explain entirely the huge change (Kohn).

For some time, the good price of commodities allowed the Kirchners to combine relatively protectionist policies with economic growth. Despite not having any pro-trade policies, the surge in trade dollars was able to finance the imports that the country needed. Once this deteriorated, because of poor international prices and the overvaluation of trade, the weaknesses of this strategy could be seen, according to an interview with Lucas Llach (Llach). This was where the root of the problems with the policy came from: the lack of currency available to import what the country needed. This turning point was seen in 2007, with the employment of adjustments and with the extremely high inflation rates that the country was experiencing. As David Kohn mentioned in his interview, the focus was on protecting imports, but the economy ran into challenges due to a lack of any emphasis on supporting exports (Kohn).

The Heritage Foundation ranks trade freedom over time as a composite measure of the absence of tariff and non-tariff barriers that affect the exports and imports of goods and services. The level of trade freedom peaks during the second half of the Kirchner administration, despite strong decreases in the level of trade freedom immediately before Néstor Kirchner took office and during his administration. Despite this peak, the country has seen a slow decrease in that freedom since that peak. The trade freedom score is measured based on the trade-weighted average tariff rate and non-tariff barriers (Heritage Foundation).

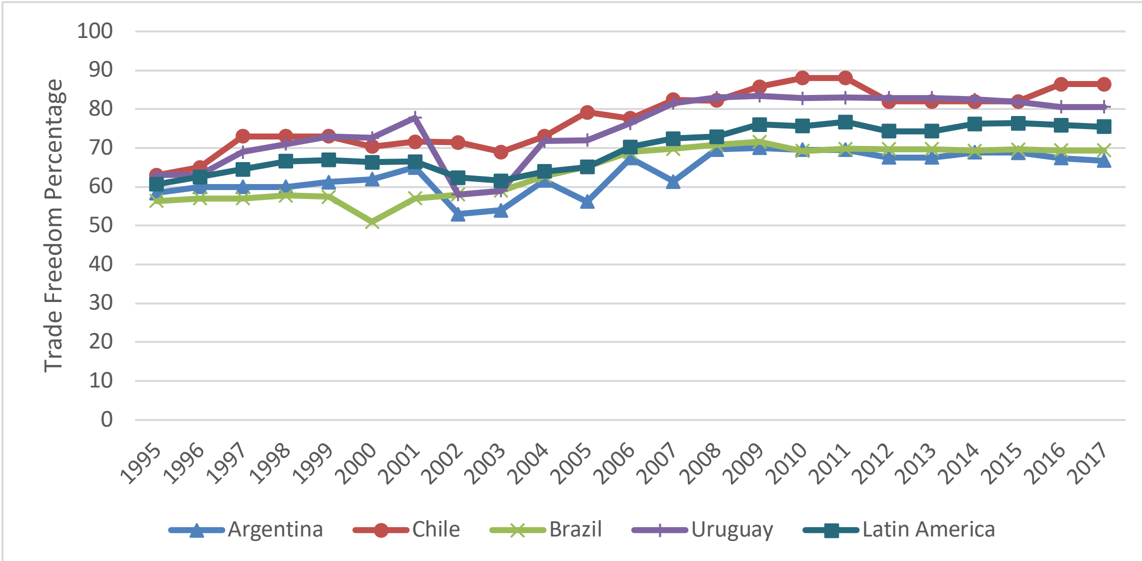
Table 12: Trade Freedom Percentage for Argentina (1995-2017)



Source: Heritage Foundation

As of 2017, Argentina is ranked number 156 for most economically free nations, a score that includes trade freedom. The country's total score is 50.4, putting it in the category of "mostly unfree," just slightly above countries with a score of 40-49.9, which are listed as "repressed." Chile ranks at number 10, with the highest score in Latin America. Bolivia and Venezuela are the only countries in Latin America that, according to the ranking, are more repressive economically than Argentina (Heritage Foundation). In terms of trade specifically, Argentina is more repressive than any other country in Latin America, except for a brief period at the turn of the 21st century, during which Brazil is even more repressive, and the most recent years, during which Argentina and Brazil are very equally matched in terms of trade freedom.

Table 13: Trade Freedom Percentages for Latin America (1995-2017)

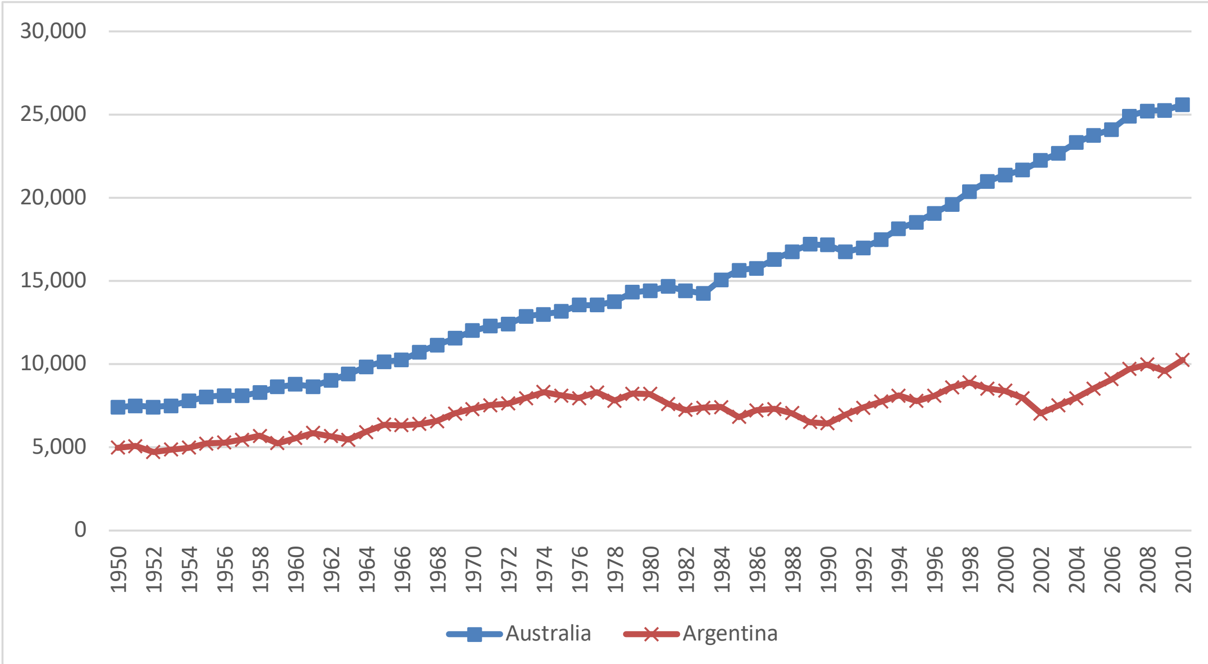


Source: Heritage Foundation

Analysis Through Trade Data

Coming into the 20th century, Argentina was ranked in the top ten countries in the world in terms of income per capita and shares of world exports, at numbers similar to those of Australia. Both countries were in a position to take advantage of the globalization of the world economy that took place around the turn of the century, with characteristics such as grasslands apt for the development of rural development, low density of population for the generation of surplus goods for export, and immigrants from Europe. During the first half of the 20th century, the share of Argentina's of world exports was more than three percent, but this had shrunk to less than 0.5 percent by the 1980s. This export percentage remained stagnant until recent years, while high growth volatility created a growing gap between Argentina and its peers, many of which continued growing at a stable rate (Anós-Casero and Rollo 1).

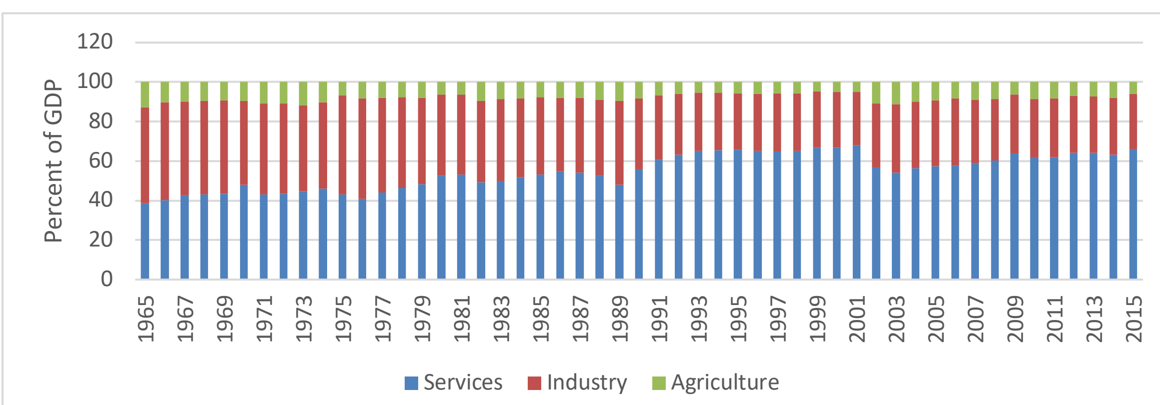
Table 14: GDP Per Capita Growth in Argentina and Australia



Source: Maddison Project

Argentina is a country that is richly endowed in natural resources, and although agriculture and agro-industries only account for about 10 percent of the country's GDP, they have traditionally been the main contributors to export growth. Agricultural profit margins were particularly strong during the devaluation of the peso in 2002 (Anós-Casero and Rollo 2).

Table 15: GDP Composition in Argentina Over Time



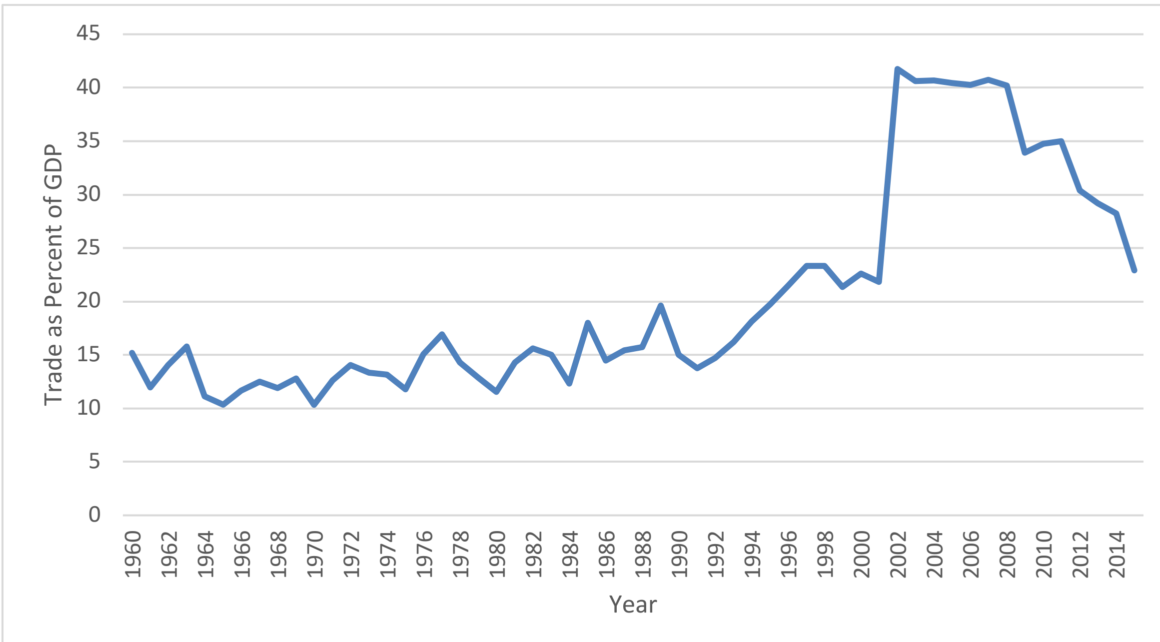
Source: World Bank

Argentina has seen an impressive growth in exports since 2003, when Kirchner took office. The 2002 currency devaluation had an important role in boosting exports and strengthening the trade balance, after nearly a decade of trade deficit. The growth in export volumes had provided a significant trade surplus, a recovery attributable largely to the excellent terms of trade created the by the peso's undervaluation and the rise in commodity prices of Argentina's primary exports. Yet, despite this increase in export values, Argentina's share of world exports has stayed firm at about 0.4 percent in the period between 2002 and 2007. The export growth was initially led by export quantity, but this flipped to price-led growth in the 2006-2007 period. A notable characteristic of export development in Argentina from 2005 to 2008 was the dynamic performance of service exports, with picked up growth after an initial slowdown in the years immediately following the crisis.

The economic recovery following the 2001 crisis also led to an increase in imports, even overcoming a weak exchange rate. The value of Argentina's imports reached $46.6 billion during 2007, which was 45.6 percent higher than 2006. This was followed by a subsequent decline associated with local firms moving from imports to local equivalents due to the combination of the devaluation of the peso and the import substitution strategy. Imports were composed of manufactured products, particularly in the automobile sector, throughout the entire period, meaning imports were highly technology-intensive and the structure of imports had not changed significantly (Anós-Casero and Rollo 3-9).

Between 1960 and 1980, trade as percent of GDP remained relatively stable, at around 15 percent of GDP. This grew steadily to just under 25 percent by the year 2002, and it saw a dramatic increase of about 20 percent during just two years. Between 2004 and 2007, during the rest of Kirchner's administration, it remained right around 40 percent. Following Cristina Kirchner's assumption of the office, however, the trade openness level plummeted, reverting to 2002 levels (World Development Indicators).

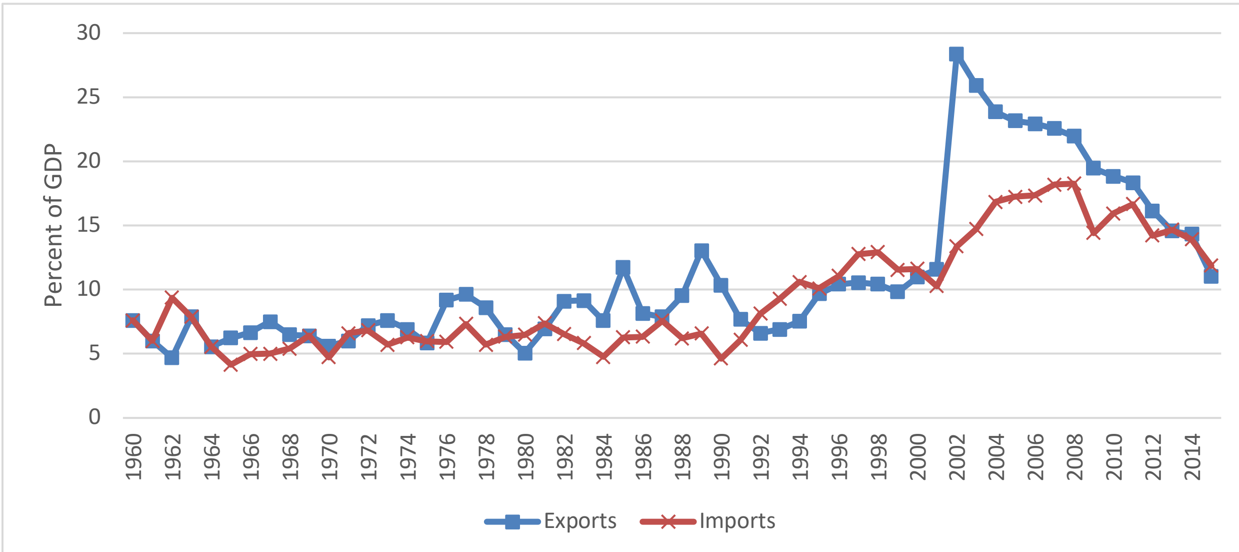
Table 16: Trade Openness in Argentina



Source: World Bank

We can also examine Argentina's emphasis on trade policy by examining exports and imports as percent of GDP separately. While they largely remain closer together, imports do not see the drastic rise that exports experience in the first Kirchner presidency. They increase only slightly, but experience a noticeable drop immediately after Cristina Kirchner took office, and then continue a steady decline throughout her time in office. While exports increased sharply between 2002 and 2004 just as trade openness did, they continue a steady decline, eventually stooping to the level of imports, throughout the rest of the Kirchner administration (World Development Indicators). Looking at the export share in GDP shows how exposed an economy is to international economy, how easily it an exploit economies of scale, and how well it can overcome recessions in the domestic market (Amsden 163).

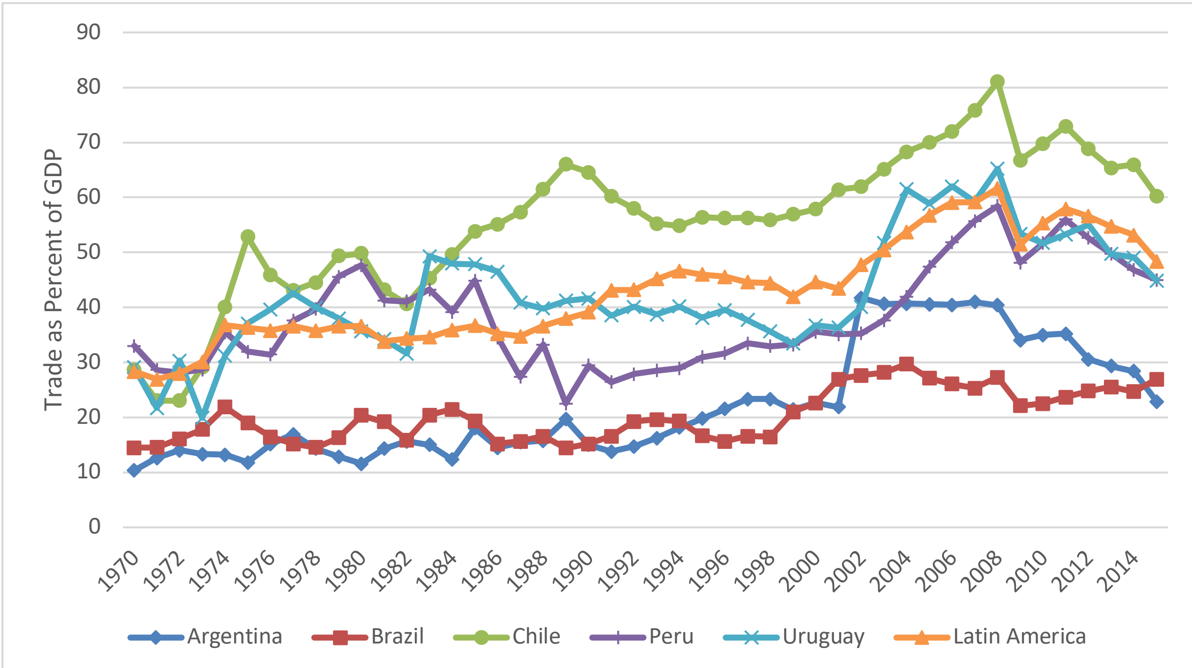
Table 17: Exports and Imports as Percent of GDP in Argentina



Source: World Bank

Comparing this to other countries in the region, Brazil is the country that mirrors the pattern seen in Argentina most closely. Most countries, especially Uruguay, as well as Chile to a certain extent, experienced a noticeable increase in trade following the crisis of 2001. Those countries saw a tapering off of trade as well, although Uruguay did not completely return to pre-crisis levels. Brazil and Argentina were the most closed countries in the region, with levels of openness lower than the average in Latin America and the Caribbean. Chile was the most open to trade in the region, and trade was a significantly higher percentage of their GDP than in Argentina and Brazil (World Development Indicators). Some scholars believe, however, that if Argentina had instead adopted policies similar to those of other Latin American countries, including Chile, Peru, Bolivia, and Colombia, that the country would have experienced higher levels of growth, as well as more stable growth with less conflict (Llach).

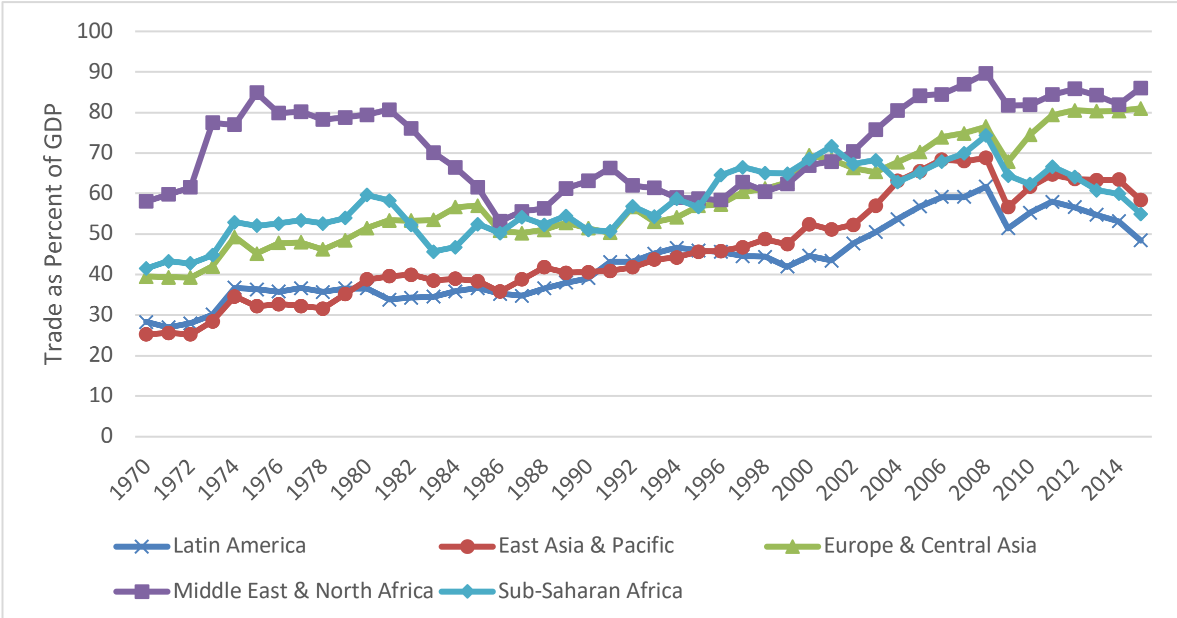
Table 18: Trade Openness in Latin American Countries



Source: World Bank

Latin America as a region was one of the most closed regions in the world. Only North America was more closed off to trade, although this was logical based on the small number of countries in the region and the large size of the countries, which provided a large internal market that many other regions did not have. From the 1970s to present-day regions throughout the world retained largely the same levels of trade openness, with only a slight upward trend. East Asia and the Pacific saw the largest growth in trade, while Latin American was unsuccessful in any efforts to increase its importance in the worldwide market (World Development Indicators).

Table 19: Trade Openness by Region



Source: World Bank

Looking at exports specifically, the participation of Latin America has been deteriorating almost permanently in the last 50 years, with almost 10 percent of world trade in the 1950s but only 4.6 percent in the 1990s. This performance is a notable contrast from that of Asia, whose participation almost doubled in the same period of time (Kosacoff et al 28).

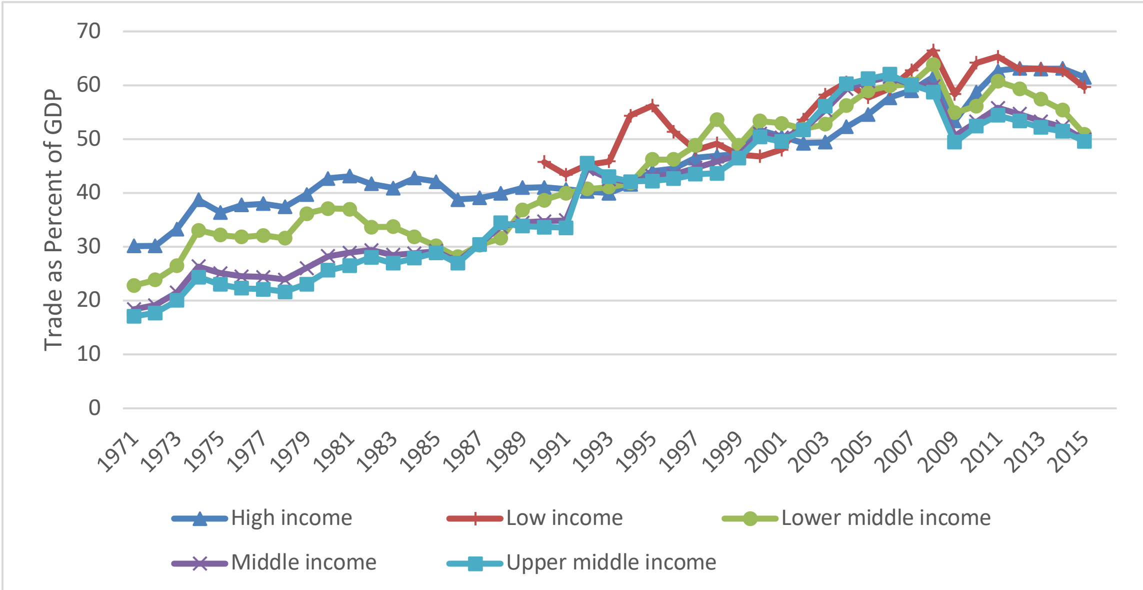
Table 20: Export Participation by Region (in percentages)

	1950-1959	1960-1969	1970-1979	1980-1989	1990-1999	2002-2003
World	100.0	100.0	100.0	100.0	100.0	100.0
Developed countries	66.4	72.3	69.7	68.9	70.0	65.3
Developing countries	29.0	21.6	24.9	25.3	27.5	31.9
Latin America and the Caribbean	9.7	6.5	5.1	5.1	4.6	5.4
Africa	6.4	5.4	5.0	3.9	2.3	2.3
Asia	12.8	9.6	14.6	16.3	20.5	24.2
Oceania	0.1	0.1	0.1	0.1	0.1	0.1
South-East Europe and transitional economies	4.5	6.1	5.4	5.8	2.5	2.9

Source: UNCTAD

Surprisingly, the level of a country's income has not been a particularly reliable indicator of its openness to trade, especially in recent decades. Although higher income countries traded the most from the 1970s to the 1990, this mostly evened out by the early 1990s. Income has become slightly more important again, even though it still does not seem to play a huge role in determining trade. Upper middle income and middle income countries have the lowest levels of trade openness, and Argentina falls into the category of upper middle income. All countries, regardless of income, have seen a significant increase in trade as a percentage of their GDP between 1970 and 1940, although all did see a slight decrease around 2007 and 2008.

Table 21: Trade Openness by Income Level



Source: World Bank

Conclusions

Although the trade policies of the Kirchners were very distinct from those of Ménem, the protectionist approach that both Kirchners had was not unique in the history of Argentina. Instead, it largely mirrored the protectionist tendencies of other popular administrations in the country's history, as noted in an interview with Pablo Gerchunoff (Gerchunoff) In fact, it was the period of the 1990s, which brought a political shift to greater openness, that is the standout period in the country's history. This shift was a result of the insufficiencies and inflation, as well as the declining return of the policies that had previously been in place. The people of Argentina finally voted for change, marking a standout point in the country's history.

Yet with the crisis of 2001 to 2002 that created disillusionment with the neoliberal-type policies of the 1990s and the return of good times internationally that brought a more positive outlook to Argentina's economy, people's preferences shifted back to their traditional perspective on trade. In fact, when Cristina Kirchner was reelected in 2011 with 54 percent of the vote, with her party winning the majority in both houses of Congress, the openness, or lack thereof, of the economy was not an issue in the election. The one candidate who openly supported eliminating export barriers received less than two percent of the vote, and the election turned into an endorsement of the restrictions and other trade policies the Kirchners had implemented throughout the past decade (Sustaining Trade Reform 110).

As shown by the analysis of the trade data, Argentina never exported, and a closed economy can be seen throughout the country's history. This is seen in the Kirchner era, but it was no worse than the trade policy of previous administrations. While there are fluctuations seen in the level of trade openness, the analysis of trade policy over time shows that these fluctuations are correlated by world events and trade openness internationally, rather than the political rhetoric of the leader in place at the time. While other economic policies changes, and the Peronist party grew and waned in popularity, the protectionist policies were consistent throughout.

As a result, trade policy or level of trade openness cannot be used as an indicator of populism. Just as populism does not align consistently with politics on either the right or the left side of the political spectrum, it takes more than knowledge about trade policy to determine whether a leader in Argentina falls under the purview of populism or not. No matter whether it was a neoliberal military regime in the 1970s, pure Peronism, Alfonsín desperately trying to keep the country together, or Ménem announcing to the

IMF and the World Bank the need to eliminate trade barriers, it does not matter — there is a legacy of a closed economy in Argentina.

APPENDIX 1: INTERVIEW INFORMATION

The interviews were conducted with Lucas Llach, Carlos Gervasoni, Pablo Gerchunoff, Bernardo Kosacoff, and David Kohn. Llach has a doctoral degree in history from Harvard University, and studied economy at the Universidad Torcuato di Tella. His primary area of study is the economic history of Argentina, and he has written extensively on the topic, including a textbook on the macroeconomy of Argentina. He is the current vice president of the Central Bank of Argentina. Gervasoni has a doctorate in political science from the University of Notre Dame and two master's degrees from Stanford University, in political science and Latin American studies. He specialized in topics such as democracy and public opinion, and he has edited books on the legacy of the Kirchner administration and on the political and economic consequences of policies of fiscal federalism enacted in Argentina. Gerchunoff is a professor at universities throughout Argentina and has written extensively on topics of political economy. Kosacoff is also a professor at universities throughout Argentina. He previously served as the director of the Economic Commission for Latin America and the Caribbean (CEPAL), which falls under the purview of the United Nations, and the president of the Institute of Economic and Social Development (IDES). He has researched topics such as the possibilities of economic development in Argentina and the economic performance of Argentina. Kohn has a doctorate in economics from New York University, and his research interests include international macroeconomy and international trade, and more specifically the effect of credit restrictions on export decisions and the dynamic of exporting firms (Cuerpo de profesores).

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