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Argentina: A South American Power Struggles for Stability

Argentina is one of Latin America's largest economies and most stable democracies, but the country has struggled with political dysfunction and financial crises in recent decades.

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Summary

Peronism, a populist movement established by President Juan Peron in the 1940s, remains the dominant political ideology in Argentina, but several parties with varying philosophies now vie for power.

Despite its economic might, Argentina has often struggled to meet its international financial obligations, defaulting on its sovereign debt nine times.

Argentina has maintained a close partnership with the United States since the Obama administration, but its relations with the rest of South America have been strained over China's growing influence in the region.

Introduction

Argentina is one of Latin America's largest economies and an important trading partner for the United States, China, and the European Union (EU). In the post–World War II period, the country's politics have been dominated by Peronism, a broad and diverse populist movement led by three-time President Juan Peron. Argentina has become one of the most stable democracies in the region, though it continues to struggle with economic mismanagement and political dysfunction. Nonetheless, it remains a strong partner for the United States and a leading power in Latin America, even as its regional relations have become strained over its relationship with China and other issues.



ARGENTINA AT A GLANCE

Area

2,780,400 square kilometers
(1,073,518 square miles)

Primary Languages

Spanish (official), Italian,
English

GDP

\$383 billion

GDP Per Capita

Population 45.4 million	Primary Religions Roman Catholicism (63%), Evangelicalism (15%)	\$8,441
Life Expectancy 78 years	Form of Government Presidential republic	

Sources: CIA World Factbook; World Bank.

How is Argentina governed today?

After gaining its independence from Spain in 1816, Argentina endured alternating periods of civilian and military rule before transitioning to a civilian-led democracy in 1983.

Today, Argentina is a federal, democratic republic with governing power divided between executive, legislative, and judicial branches. A popularly elected president, who is both head of state and government, wields wide-ranging executive power, including as commander in chief of the armed forces. Presidents serve a term of four years and can be reelected, with some limitations. Legislative authority resides with the National Congress, consisting of a Senate and Chamber of Deputies, while a Supreme Court sits atop an independent judiciary.

Since the 1930s, Argentina's system of checks and balances has weakened, and political power has become increasingly centralized in the executive. Some political analysts refer to the Argentine system as "hyperpresidentialist [PDF]," a tradition, they say, that stands in the way of needed democratic reforms. Among their concerns is that presidents can pass decrees that have the force of law, allowing them to bypass Congress.

What is Peronism?

Perhaps the most influential political figure in Argentina's history is Juan Peron, a former military officer who was elected president three times in the post-World War II era. His populist political movement, known as Peronism, draws most of its support from labor unions and the poor and working classes. Political historians attribute much

of Peron's appeal to the charisma of his second wife, Eva, known also as Evita, who advocated for greater labor rights and helped enact several reforms, including Argentina's women's suffrage law. Under Peron's rule, the government intervened heavily in the economy, nationalizing the central bank and several large corporations, expanding health and welfare benefits, and paying off the country's debt.

Though popular, Peron became increasingly authoritarian, jailing political opponents and restricting press freedoms. Many experts say Peronism has fascist traits, but it remains the dominant political ideology in Argentina, and its leaders have not dismantled the country's democracy during their time in office.

What are Argentina's main political parties?

There are two dominant and several emerging parties in Argentina.

Justicialist Party. The center-left party—formerly known as the Peronist Party—is today part of a broader coalition called Frente de Todos (Front for All), which formed in 2019 to support the presidential campaign of Alberto Fernandez. It was the largest party for nearly forty years until it lost its congressional majority in 2021, and it continues to draw support primarily from the working and lower classes. The party has many factions, and its populist politics have evolved over the decades, but it continues to generally favor greater economic interventionism and social welfare spending.

Radical Civic Union (UCR). The UCR has long been the main opposition of the Peronists and various military-led regimes, and its leaders have won the presidency close to ten times over the past century, most recently in 1999. Today, it is a centrist, progressive party that draws its support largely from the urban middle class and comprises half of the Juntos por el Cambio (Together for Change) alliance, which now holds a congressional majority. The party has fractured at times and its platforms have shifted over the years, but it has generally favored limiting spending to reduce the national debt, reforming the judicial system, promoting human rights, and now implementing a vocational training system.

Others. Additional notable parties include those in the growing Workers' Left Front - Unity, an alliance of Trotskyist parties; the parties that form the left-leaning Civic Coalition, of which former Minister of Finance Alfonso Prat-Gay is a member; and the center-right Republican Proposal party (PRO). The latter two mainly draw support from the country's urban centers and are considered emerging political forces. In 2015, PRO leader Mauricio Macri was elected president and introduced a slate of pro-market policies and controversial austerity measures to revitalize the economy and resolve the country's long-running debt dispute with foreign creditors.

What political challenges does the country face?

Argentina is considered one of the most stable democracies in Latin America, but the government faces several enduring challenges, including endemic corruption and low levels of public trust. In 2020, Argentina ranked 78 out of 180 countries on Transparency International's Corruption Perceptions Index, tying with states including China and Kuwait. Recent high-profile political scandals include the 2018 Notebooks Case and the COVID-19-related "VIP vaccination" episode.

Political polarization is also a recurring problem. The divisiveness in Argentina, known commonly as *la grieta*, or the rift, has often led to democratic dysfunction and policy reversals whenever a new administration takes power. For instance, the Macri government was a leading critic of Venezuelan President Nicolas Maduro's regime; however, President Fernandez has undone many of his predecessor's policies regarding Argentina-Venezuela relations.

This polarization has also manifested within parties. Many analysts were surprised to see the public sparring between Fernandez and his vice president, Cristina Fernandez de Kirchner (no relation), over social and economic policies following their party's poor performance in the 2021 primary elections.

What is the state of Argentina's economy?

Argentina is the third-largest economy in Latin America, behind Brazil and Mexico. Its major industries include automobiles, textiles, mining, technology, agriculture, and tourism. Additionally, analysts say there is significant economic potential in the development of renewable energy, such as solar and wind power, and related resources, such as lithium.

Argentina has historically shifted between pro-business and populist administrations, which have taken a more heavy-handed role in the economy and increased social spending. Before taking office, Fernandez promised to reverse the austerity measures enacted under Macri. His administration has since increased taxes on exports and high-income households, lowered interest rates, and raised the minimum wage. However, while year-on-year unemployment has fallen recently, the country still has one of the highest inflation rates in the world, and four in ten Argentines live below the national poverty line.

Argentina's top trading partners are the United States, Brazil, and China. The United States is also Argentina's largest foreign investor, with more than three hundred U.S. companies operating there. In addition, Argentina is a member of several regional trade groups, including the Southern Common Market (Mercosur) and the Latin American Integration Association, and it is currently a prospective member for the Organization for Economic Cooperation and Development, a bloc of the world's most advanced economies.

What are Argentina's major economic challenges?

Argentina's climate for business and investment has worsened in recent years, weakening due to political dysfunction, price and capital controls, high inflation, debt concerns, and the COVID-19 pandemic. In 2020, foreign investment dropped to \$4.1 billion, down 38 percent from the previous year, and several international companies announced they were downsizing or leaving Argentina amid the country's ongoing recession. The overall economy has shrunk each year since 2018.

Argentina was one of the ten wealthiest countries per capita in the early twentieth century. However, economists say that its overreliance on commodity exports and unsustainable government spending fueled frequent boom-bust cycles, resulting in political instability and economic decline in the decades that followed.

Successive administrations have struggled to keep the country's finances in check during periods of economic turmoil. As a result, Argentina has often failed to pay its international creditors; it has defaulted on its sovereign debt nine times over the last two centuries, one of the most frequent in the world to do so. The largest default occurred in December 2001, when the government reneged on nearly \$93 billion in loans, causing Argentina to lose access to international debt markets. To restore its ability to borrow, Macri cut export taxes, lifted currency controls, and negotiated a debt settlement with holdout creditors in 2016. While these actions were successful, Argentina lost access again following the country's default in May 2020.

As of December 2020, Argentina's total national debt was \$336 billion, or nearly 90 percent of its gross domestic product (GDP). Of that, the government owes \$45 billion to the International Monetary Fund (IMF) and \$2.4 billion to the Paris Club, an informal group of private creditors.

Argentina Is a Leading Economy in the Region, Despite Its Debt Challenges

GDP, GDP per capita, and debt for the five largest economies in Latin America

Country	GDP (PPP) ▼	GDP per capita (PPP)	Debt (% of GDP)
Brazil	\$3.2T	\$15K	89%
Mexico	\$2.4T	\$19K	58%
Argentina	\$942.2B	\$21K	102%
Colombia	\$741.4B	\$15K	65%
Chile	\$479.2B	\$25K	35%

Notes: GDP and GDP per capita are for 2020. Debt is for 2020 Q4. GDP and GDP per capita are in international dollars, calculated using purchasing power parity (PPP) for comparability.

Sources: World Bank; CEIC Global Database.

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What are Argentina's foreign policy interests?

Argentina's foreign policy has shifted, sometimes dramatically, with the priorities of each governing coalition. Major areas of focus include:

Regional relations. Argentina is a regional power in Latin America due to the size of its economy; it is a leading trade partner to neighboring Brazil, Chile, and Paraguay. It is part of several long-standing regional partnerships, including the Community of Latin American and Caribbean States; the Organization of Ibero-American States for Education, Science and Culture; and the Mercosur trade bloc.

However, the election of Fernandez in 2019 heightened regional tensions. In January 2020, he denounced the recognition of Juan Guaido as Venezuela's interim president; several neighboring states, including Brazil and Colombia, support Guaido's claim to the presidency over that of Maduro. Fernandez later oversaw Argentina's withdrawal from the U.S.-supported Lima Group, a group of twelve Latin American countries created to restore democracy in Venezuela, the following March. At the same time, relations with Brazil, Chile, and Uruguay have been strained by disputes over China's growing role in Latin America, the future of Mercosur, and maritime boundaries.

International relations. Argentina belongs to the Group of Fifteen (G15), a forum for developing countries, and the Group of Twenty (G20), which comprises twenty of the world's largest economies. It is also a founding member of the United Nations, the Organization of American States, and the World Trade Organization. It also maintains robust relations with major world powers, including the United States, China, and the EU.

China and Argentina have become close trading partners in the past two decades, and talks of Argentina joining China's Belt and Road Initiative are underway. In recent years, Chinese investment in Argentina has been concentrated in the telecommunications, agriculture, and infrastructure sectors, and has included financing for a nuclear power plant and a space station. Between 2005 and 2019, Chinese investment in Argentina totaled \$30.6 billion, or nearly 40 percent of all Chinese investment in South America. Both Chinese President Xi Jinping and Fernandez have expressed a desire to deepen the comprehensive China-Argentina strategic partnership.

Meanwhile, Argentina remains a major non-North Atlantic Treaty Organization (NATO) ally of the United States, but experts say that bilateral relations seesaw depending on both countries' political leadership. During the Kirchner administrations in the early 2000s, relations were strained by Argentina's isolationist foreign policy, its close relationship with Venezuelan President Hugo Chavez, and its stance on Iran. But relations improved under Macri, who engaged with the United States on several fronts [PDF] during the Barack Obama and Donald Trump administrations. (Argentina and the United States were among twelve countries that voted in 2019 to invoke the Inter-American Treaty of Reciprocal Assistance [PDF] in response to the crisis in Venezuela.) Both U.S. presidents visited Argentina, while Macri's 2017 visit to the White House was the first by an Argentine leader in nearly a decade. The U.S.-Argentina partnership has remained steady under Fernandez and Joe Biden, with cooperation focused primarily on addressing climate change.

The Argentina-EU partnership remains strong, and areas of cooperation include business, science, and technology. On trade, the EU continues to be a major destination [PDF] for Argentina's agricultural products and raw materials, and as a member of Mercosur, Argentina is part of ongoing negotiations to ratify a free trade agreement with the bloc.

Recommended Resources

The University of Ljubljana's Rok Spruk details the rise and fall of Argentina for *Latin American Economic Review*.

For *Americas Quarterly*, the National University of Rio Negro's Maria Esperanza Casullo looks at the surprisingly stable nature of Argentina politics.

Former CFR Senior Fellow Brad W. Setser examines Argentina's history of debt restructuring.

For *Global Americans*, Evan Ellis, of the U.S. Army War College Strategic Studies Institute, writes that the return of Peronism in Argentina is an opportunity for greater engagement with China.

CFR's Shannon K. O'Neil spoke with former Argentine Foreign Minister Susana Mabel Malcorra at this February 2016 event.



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