

# Argentina

By A V Vedpuriswar

Argentina, the most cosmopolitan nation in South America is located on the southeastern extreme of the continent. With a population of nearly 37 million people, gross domestic product of \$295 billion, per capita GDP of \$ 8,200, and annual exports (in 1999) topping \$23 billion, Argentina is one of the more prosperous economies in Latin America and the third largest in the region, after Brazil and Mexico.

At the turn of the 20<sup>th</sup> century, Argentina was very prosperous. However, it began to fade away during the 1930s and the 1950s, effectively becoming a developing country. In the 1990s, the country turned around thanks to structural reforms implemented by an enlightened political leadership.

An intensely proud people, the Argentines are now becoming more outgoing and accepting a greater international role in the developing new world order. Following the WTC attack on September 11, the Argentine leadership was quick to offer support to the US administration.

Argentina has a distinctive identity within Latin America. Unlike other countries in the region, Argentines are mostly of European origin. The country has traditionally maintained close links with Europe. At least 85 percent of the population is white. Between 1850 and 1940, more than 3.5 million immigrants arrived in Argentina, about 45 percent of them from Italy and 32 percent from Spain. Substantial numbers have also come from Britain, Germany, France, Switzerland, Denmark, Poland, Russia, the Middle East, and Japan. Other groups, such as Blacks and Asians, make up a negligible portion of Argentina's population. Spanish is the official language and is spoken universally, but a number of Argentines also speak English, Italian, German and French.

Table 1

## Economic data

|                                      | 1997   | 1998   | 1999   | 2000   |
|--------------------------------------|--------|--------|--------|--------|
| GDP per head (USD)                   | 8,214  | 8,280  | 7,747  | 7,640  |
| GDP (% real change pa)               | 8.11   | 3.85   | -3.40  | -0.10  |
| Government consumption<br>(% of GDP) | 12.06  | 12.50  | 13.74  | 13.50  |
| Budget balance<br>(% of GDP)         | -1.57  | -1.40  | -2.60  | -2.50  |
| Consumer prices<br>(% change pa; av) | 0.50   | 0.89   | -1.17  | -0.94  |
| Public debt (% of GDP)               | 34.52  | 37.58  | 43.03  | 43.70  |
| Labour costs per hour<br>(USD)       | 3.40   | 3.40   | 3.38   | 3.35   |
| Recorded unemployment<br>(%)         | 13.85  | 11.80  | 13.03  | 14.30  |
| Current-account balance/<br>GDP      | -4.27  | -4.88  | -4.34  | -3.20  |
| Foreign-exchange reserves<br>(m\$)   | 22,320 | 24,752 | 26,252 | 25,147 |

Despite the mix of ancestries and languages, the Argentines are fiercely nationalistic, although they ~~are sometimes unsure about their cultural identity.~~ One common saying holds that “Argentina is the most European of the Latin nations because its people are from the most Latin of the European nations.” Whatever be the case, the country is rapidly modernising. Buenos Aires was recently voted the I.T capital of Latin America, the second best city after Sao Paulo for trade shows and the second after Santiago for the best blend of cultural life, entertainment, personal safety and efficiency.

Argentina has developed a strong telecommunications, energy and transportation infrastructure in the past 10 years. Since the inception of the Mercosur customs union in 1995, Brazil has become Argentina’s largest trading partner, with the U.S. in second position.

Argentina has been going through troubled times of late. The country’s currency board (fixed exchange rate) system has aggravated the recession which started in 1998. The financial turbulence in Brazil towards the end of 1998 and the beginning of 1999 and the devaluation of its currency the Real has had a severe impact on Argentina’s growth. The economy has shrunk by an annualised 12% during the third quarter of 2001. Unemployment rose to 15 percent during mid-2000 and is likely to remain high in the years ahead. In the absence of growth, Argentina’s public debt of \$132 billion is becoming difficult to service. Notwithstanding these concerns, there is no doubt that the country has come a long way in the last two decades.

## Background Note

The modern state of Argentina began to evolve around the 1860s, when after decades of civil war, basic institutions and infrastructure were developed. Soon, European immigrants began to enter the country in large numbers. The country continued to prosper in the early part of the 20<sup>th</sup> century, thanks to the exports of agricultural products especially to Europe. Excessive dependence on low value added exports however, led to problems. In the 1920s, agricultural depression, a world wide slump and protectionism combined to make it a difficult time for Argentina. In 1930, after a military coup, an era of military intervention began and the country’s plight worsened.

In 1946, free elections were held. Juan Domingo Peron who became president, nationalised many industries and imposed restrictions on foreign investments. Industrial protectionism and growing state intervention in the economy sparked off an inflationary process and led to frequent devaluations of the local currency. As the public became paranoid about inflation, spending on goods increased, further worsening the situation. The country’s debt burden also mounted.

In 1955, social unrest intensified, followed by a military coup leading to Peron’s departure from the country. Military rule however, failed to improve the situation significantly. Then followed to armed guerilla opposition movements in the late 1960s. Peron returned from exile and regained power in 1973. Following his sudden death in 1974, the military returned to power. There were no signs, however, of any economic revival and by 1981, the country’s foreign debt had increased to \$36 billion. In 1982, the military made a strategic blunder, by occupying the Falkland islands, off the country’s south east coast. The British retaliated and quickly subdued the Argentine army. By this time, public anger at the military was mounting. In the 1983 general elections, the moderate radicals won and Raul Alfonsin became the president.

**Table 2**  
**Argentine Inflation by Decade**  
**(Annual rates of change in the**  
**consumer price index)**

| Period    | Average | Maximum | Minimum |
|-----------|---------|---------|---------|
| 1920-1929 | -1.7    | 17.1    | -15.9   |
| 1930-1939 | -0.3    | 13.0    | -13.9   |
| 1940-1949 | 10.6    | 31.1    | -0.3    |
| 1950-1959 | 30.3    | 111.6   | 3.7     |
| 1960-1969 | 23.3    | 31.9    | 7.6     |
| 1970-1979 | 132.9   | 444.0   | 13.6    |
| 1980-1989 | 750.4   | 4,923.3 | 87.6    |

Source: INDEC

Alfonsin punished the military leaders and took various steps to restore the public confidence. However, the economy, increasingly disoriented by inflation began to shrink at a rate of 1 percent per year. Though employment continued to grow at 1.6

percent per year, the 2.6 percent average annual decline in the productivity of the employed was clear evidence that only unproductive activities were expanding. This was true for both the public and private sectors. Government expenditure during the 1980s was on an average, 33 percent of GDP, while the fiscal deficit was about 5 percent of GDP.

In spite of a strongly undervalued currency during the whole decade, exports grew at a rate of only 3 percent annually and imports contracted at a rate of approximately 7 percent. In 1989, government expenditure reached 35.6 percent of GDP and the fiscal deficit climbed to 7.6 percent of GDP. Inflation almost reached 5,000 percent and at its peak during the period March 1989 to March 1990, was over 20,000 percent.

### The stabilization plan

In 1989, the Peronists returned to power and Carlos Menem became the president. The government began to overhaul the Argentine economy through various measures - liberalization of foreign trade and capital movements, privatization of public enterprises, restructuring of the tax system and the creation of a new monetary system.

Menem's Economy minister, Domingo Cavallo introduced the Currency Board and reversed the country's traditionally inward looking protectionist policies. The Convertibility Act of 1991 made the austral<sup>1</sup> fully convertible at a fixed rate of 10,000 australs to the dollar. The act stipulated that the domestic monetary base had to be backed by gold and foreign currency reserves. The major implication was that the government could no longer print money to finance a fiscal deficit. Consequently, the deficit shrank dramatically. In the 1980s, the overall public sector deficit had been 9% of GDP on an average. By 1990, it fell to 5%, by 1991 to 1.8 % and by the end of 1991, the government budget showed a surplus. Government expenditure fell drastically from 35.6 percent of GDP in 1989 to 29.8 percent in 1990, and continued to fall to 27 percent of GDP by 1995. The economy grew impressively at an annual average rate of 5.7%<sup>2</sup> between 1991 and 1998.

In the past 10 years, Argentina's aggressive privatisation has covered the telephone network, the state airline, two television stations, 10,000 km of

roads and some railway lines. In his first term, Menem privatised various sectors of the economy - the state oil monopoly YPF, the telecoms monopoly; several electrical, gas and water companies; airlines; television channels; steel and petrochemical firms, grain elevators, hotels and race tracks. The state welfare system gave way to private pension schemes. Unfortunately for Argentina, the pace of reforms slowed down in the mid 1990s. During Menem's second term, fiscal policy was loose and public debt rose from 40% to 50% of GDP. Menem also made a blunder in 1996 when he removed Cavallo, who by this time was nurturing his own political ambitions.

### Recent developments

In October, 1999, an opposition coalition led by Fernando de la Rúa came to power. With currencies in the region having depreciated, and the Argentine peso becoming over valued, the country's recession worsened. On November 10, 2000, de la Rúa interrupted prime-time television programming to confess that the country was facing a crisis. Unemployment was running at 15%. Yields on Argentine bonds had soared to 10 percentage points<sup>3</sup> above US treasuries. Low growth and high interest rates had taken Argentina's debt to GDP ratio to over 50%, though at 2.8% of GDP, the fiscal deficit was under control. The situation called for decisive action.

### Recent developments

Domingo Cavallo has now returned as the economy minister while widely respected banker Roque Maccarone has become the new Central Bank chief. Maccarone's presence is expected to ensure a closer coordination with the Economy Ministry, as he has worked with Cavallo for many years. Maccarone has come in place of Pedro Pou, who disagreed with Cavallo about the new convertibility system and refused to lower reserve requirements to boost liquidity in the system.

In the new system proposed by Cavallo, the peso value will depend on both the dollar and the euro. The plan will go into effect whenever the euro gets at par with the greenback. Cavallo has argued that by introducing the euro as a second parameter for the peso, vulnerability to fluctuations of any one currency will

<sup>2</sup> *The Economist*, November 3, 2001s

<sup>3</sup> By November 2001, the yield differential had increased to 20%

be minimised, while more or less preserving the value of the peso. Many economists, politicians and local businessmen support the plan but detractors argue that the proposed change would introduce an element of uncertainty among investors, who think of one peso being exactly one dollar, not “approximately” one dollar. Nevertheless, the minister has promised Argentines and foreign investors a phased implementation of the new system and argued that this flexibility is needed to guarantee the future stability of the exchange rate mechanism. Cavallo has also imposed a tax on importers and offered a subsidy to exporters. The subsidy varies depending on the movement of the euro. In June 2001, the Argentine Congress passed the New Convertibility law.

On August 21, 2001, Argentina got a big boost when the IMF raised its Extended Fund Facility from \$14 billion to \$22 billion. The IMF has provided various incentives to the country to restructure its \$128 billion public debt by entering into agreements with creditors. The Fund has asked Argentina to reduce government expenditure, improve tax collection and strengthen the banking system. Local banks and pension funds have agreed to swap bonds worth \$50 billion for more generous loans. This will reduce interest burden by \$4.5 billion per year. Many provincial governors have also accepted cuts in revenue transfers from the centre.

### Economic Policies

Argentina's recovery in the 1990s from a virtually hopeless situation has been to a large extent due to its currency board exchange rate system. Indeed, it has become a much talked about model among many developing countries. The currency board calls for strong monetary discipline with a direct linkage between domestic money supply and dollar reserves. In early 1999, when the Brazilian real crashed and earlier in 1994-95 when the Mexican Peso plummeted, the Argentine Peso held its own at a peg of one peso to the dollar. However, the currency board has also reduced Argentina's flexibility to conduct fiscal policy, since interest rates cannot be reduced independently. Indeed, this is one of the main reasons

for Argentina's prolonged recession.

Meanwhile, the federal and provincial fiscal deficits and the rising level of public debt have become a major concern. Argentina's 1999 public sector deficit was over \$7 billion, or around 2.5 percent of GDP. Provincial deficits added another 1.3 percent of GDP to the total. A large part of the budget deficit is due to the social security system, which is being gradually reformed. Most workers have shifted from the government pension system to private capital pension funds under the 1994 pension reform. Private funds now receive about \$4 billion annually from workers, while the government funds payments to retirees out of the budget. This imbalance will be corrected once private funds start to pay for future retirees. A fiscal responsibility law passed in August 1999 is intended

to restore a balanced budget by 2003. Argentina also needs to rationalize the federal revenue-sharing system with the provinces (called “coparticipation”) and improve the finances of the provincial governments.

To deal with the ongoing recession, the government has

announced substantial tax cuts. Income tax has been cut along with gasoline and high way toll. Argentina has also recently swapped nearly \$30 billion in debt for bonds maturing between 2006 and 2031. The average interest rate for the new debt is about the same as for the new debt. The roll over has reduced the immediate foreign debt obligations.

Aided by a favourable external environment, during the mid-1990s, investment rates recovered from the lows recorded early in the decade. Nevertheless, in 1999 the investment rate was still a relatively modest 20% of GDP (measured in constant prices) while gross domestic savings, were 17.2% of GDP. Private consumption continues to account for a high share-81%-of GDP. The domestic savings-investment gap makes Argentina heavily dependent on external finance and vulnerable to volatility in the international capital markets.

Another challenge for Argentina's policy makers is to spread development across the country. Economic development is still not broad based. Less than one-fifth of the continental area-the federal district and

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Buenos Aires, Cordoba and Santa Fe provinces-accounts for 64% of the population, 80% of industrial production and 92% of total agricultural output.

Argentina's labour markets lack flexibility but are not as rigid as widely perceived. de la Rúa has introduced a bill that allows a longer period during which a new worker can be sacked without compensation. Employers have their own ways of handling labour problems. Many use temporary workers supplied by contractors, who they can employ or retrench at will. They also conduct wage negotiations at company level, a practice which many pragmatic unions have accepted readily.

## Industry

The industrial sector employs approximately 23.1 percent of the workforce (2000 figures). As mentioned earlier Industrial development is heavily concentrated in the province of Buenos Aires, Santa Fe and Córdoba. Pockets of specialized industrial clusters have developed in other areas to take advantage of local natural and labor resources.

Small firms with fewer than 30 persons employ the vast majority of Argentine industrial workers, and few companies employ more than 500 workers.

Before the 1930s, most industrial products were imported. During the 1940s, import substitution gathered momentum. In the late 1950s and 1960s, production went beyond consumer goods to include industrial products-primarily steel, petrochemicals, and automobiles. Despite a certain degree of stagnation due to restrictions and overcapacity, Argentine industry continued to grow in the 1970s, diversifying and increasing capacity in such areas as basic metals, machinery and equipment, chemicals and petrochemicals. After a period of stagnation during the 1980s, the industrial sector continued to grow during the 1990s, thanks to the economic reforms. Pockets of extremely sophisticated state-of-the-art production now exist. The prospect of being able to reach larger markets on more favorable terms through the regional trading bloc Mercosur<sup>4</sup> has also boosted industrial growth. Now of course, the

economy is in recession.

Argentina had been self-sufficient in petroleum up to the 1980s. Following privatisation and deregulation in the early to mid-1990s, Argentina became an exporter of oil and natural gas. Foreign firms now account for a higher share of total output. Services account for around 60% of GDP, but many activities in this sector have low productivity. Privatisation has raised efficiency in communications, electricity distribution, finance and transport, but consumers have not benefited much.

We now briefly examine a few of Argentina's important industries.

## Wine

The Argentines have been producing wine since the time of colonization. Argentina has about 520,000 acres of vine cultivation, representing 2.67 percent of the world's vineyards. According to 1997 statistics, Argentina occupied sixth place in the world with respect to the quantity of grapes grown and fifth place with regard to the production of wine, behind France, Italy, Spain and the United States. The country is the sixth largest consumer of wine in the world.

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Quality standards are very high and the National Institute of Viti-Viniculture certifies the genuineness and the origin of the product. In September 1999, the Argentine Congress sanctioned the Law for Appellation of Origin and Geographic Designers. This has helped Argentine wines gain credibility and recognition abroad.

## Automobiles

The automobile industry has faced serious problems in recent times, with the country's currency-board regime, proving to be a major handicap. Brazil's devaluation in January, 1999 made cars 30% to 40% cheaper to produce in Brazil than in Argentina. As a result, some 20 Argentine auto-parts suppliers, including Goodyear Tire and Rubber Co. and Delphi-Packard, have moved to Brazil in recent times.

<sup>4</sup> Mercosur consists of Uruguay, Paraguay, Brazil and Argentina.

One answer for Argentina's auto makers may be to find new markets. The industry suffers from an acute dependency on the Brazilian market, with 95% of total vehicle exports, or 50% of production, heading north. However, as long as the peso remains pegged to the greenback, Argentine cars will remain priced even in other markets. Meanwhile, companies have been lobbying the government to cut taxes, which account for as much as 47% of the cost of a new car—almost twice that in Brazil.

### **Telecommunications equipment**

The Argentine telecommunications market was one of the first in Latin America to be privatized. In 1990, just before the privatization, there were three million telephone lines. By December 1999 this number had crossed 7.5 million. Argentina also has the highest cable TV penetration in Latin America. In June 2000, cellular penetration crossed 10 percent. In March 1998, the government announced plans to open fully Argentina's market by late 2000, with the transition beginning in 1999. In June 2000, a new regulatory framework was presented including licenses, interconnection, universal service and spectrum management. This new framework has opened up the full range of communications services and created a level playing field for new entrants. Most basic telephony services are completely open to competition under to Argentina's new regulatory framework and in line with the country's WTO commitments.

### **Dairy**

Dairy is one of the most dynamic sectors of the Argentine economy. Large investments have been made in the past few years by both Argentine and foreign companies, mainly from Europe. As a result, both processing capacity and the number of products available in the domestic market have expanded. Many local and foreign dairy processors have incorporated modern technology in their plants. This industry is expected to continue to grow at a rate of about 5 percent per year. However, domestic consumption is expected to expand at a slower pace, because of an already high per capita consumption and the prevailing recession.

### **Foreign Investments**

Attracting foreign direct investment, has been a key element of Argentina's economic growth strategy.

Foreign investors operate in major economic sectors. They have been attracted to Argentina in the past decade because of its good institutions and strong fundamentals. Argentina has enjoyed a climate favorable to capital flows thanks to a well-educated workforce, a vast supply of natural resources and a well-developed infrastructure base. Foreign investors need not register in Argentina nor obtain permission to invest. Complete foreign ownership of local companies is permitted. Foreigners can invest in any economic sector in Argentina. Investment in shares on the local stock exchange requires no government approval. There are few restrictions on movements of capital or repatriation of funds. Though foreign investors still face problems like inconsistent application of regulations, fraud and corruption, the situation has improved dramatically since 1989. Improvements in the judicial system will further improve the environment for long-term investors.

Since the late 1980s, the bulk of foreign investment in Argentina has been in the large privatized, formerly state-run, industries. Foreign firms have actively participated in Argentina's ambitious privatization program. Enthusiasm of foreign participants has been particularly high in the former monopolies in the extractive sectors, utilities, and services: oil and gas, mining, telecommunications, water and sewers, energy, transportation, financial services, ports and port services. Foreign investments for the period 1994-98 totalled \$ 6.0 billion in oil and gas, \$ 6.5 in telecommunications, \$ 5.7 billion in energy, \$ 5.2 billion in banks and insurance, and \$ 1.7 billion in mining.

In recent times, Argentina's competitiveness has suffered because of the sharp decline of the Brazilian real. However, all the blame for loss in competitiveness cannot be put on external factors. Many local businesses have been slow to restructure since protectionist barriers were lifted in the early 1990s. Argentina is also learning the hard way that when times are tough, companies will focus on the big markets. Brazil's population of 165 million is nearly five times that of Argentina. That's one reason why automakers, even while scaling back in Argentina, are investing more money in Brazil. Although its economy barely grew in 1999, Brazil received a healthy \$29 billion in foreign direct

investment last year, compared with an estimated \$6 billion for Argentina.

Some Argentine provinces are trying to compete with Brazil by offering foreign investors with offers of tax breaks and other perks. However, Brazilian states have been even more generous, giving free land and big financing packages to car makers including France's Renault and Ford. These however can only be temporary measures as Argentina and Brazil, both of which are trying to contain large fiscal deficits, can ill afford such largess.

## Foreign Trade

During much of its modern history, Argentina has exported low-value-added products. During the 1940s and 1950s, Argentina imposed tariff and nontariff barriers to facilitate import substitution. From the 1960s through the 1980s, policy fluctuated between more open and less open trade. After running large trade surpluses for most of the 1980s, policy makers shifted to a free trade approach, allowing the economy to run up substantial trade deficits in the early 1990s as the country imported capital goods and other inputs to strengthen production.

In 1988, peak import tariff was 50 percent (plus a 15 percent surcharge), with a minimum charge of 15 percent, and an average rate of 39 percent. As of March 2000, tariffs ranged from 0 (for capital goods) to 35 percent (for some consumer products). Discretionary import licensing was also dropped. Most export tariffs have also been eliminated. Total foreign trade doubled between 1991 (US\$ 20.3 billion) and 1995 (US\$ 41.1 billion), and continued to grow substantially in 1997 (US\$ 56.6 billion) and 1998 (US\$ 57.8 billion).

**Table 3**

| Major exports (1999)              | % of total |
|-----------------------------------|------------|
| Processed agricultural products   | 35.1       |
| Manufactures                      | 29.8       |
| Primary products                  | 22.2       |
| Fuels                             | 12.9       |
| Major imports (1999)              | % of total |
| Intermediate goods                | 32.6       |
| Capital goods                     | 26.5       |
| Consumer goods                    | 17.6       |
| Capital goods parts & accessories | 16.5       |
| Leading markets (1999)            | % of total |
| Brazil                            | 25.2       |
| US                                | 10.6       |
| Chile                             | 7.5        |
| Spain                             | 4.1        |

| Netherlands              | 2.9        |
|--------------------------|------------|
| Leading suppliers (1999) | % of total |
| Brazil                   | 22.1       |
| US                       | 19.9       |
| Italy                    | 6.2        |
| France                   | 5.7        |
| Germany                  | 5.7        |

Source: *Economist Intelligence Unit*

Argentina's trade deficit dropped from \$5 billion in 1998 to \$2.2 billion in 1999, primarily because of a sharp fall in imports due to the recession. The value of exports fell 12 percent, mainly due to low international commodity prices, while imports dropped 19 percent over 1998. Argentine exports began to increase significantly in the last few months of 1999 and continued their upward trend in early 2000. In 2000, total trade declined to \$51.4 billion, influenced by the recession in Brazil and the decline in export prices. During the first half of 2001, Argentina posted a \$2 billion trade surplus with \$13.46 billion worth of exports and \$11.46 billion of imports. Trade with Mercosur partners showed a \$570 million surplus.

Foreign trade now equals approximately 17 percent of GDP — up from 11 percent in 1990 but exports represent only 8 percent of Argentine GDP, largely unchanged since 1990. Argentina continues to be known primarily for its agricultural exports (grain, oilseeds, and meat products), although exports of value added products have seen a boom in recent years. From 1980 to 1989, Argentina's exports averaged 38 percent for primary products, 37 percent for agricultural manufactures (processed products), 21 percent for industrial manufactures, and 4 percent for fuels. In 1999, primary products made up 22 percent of exports, agricultural manufactures, 35 percent, higher earning industrial products, 30 percent, and fuels, 13 percent.

Machinery and equipment represented the largest single category—33 percent—of imports in 1999. Chemicals was second (16 percent), and transportation equipment in third place (15 percent). Together, these three categories accounted for 64 percent of 1999 imports. The top ten import products accounted for over 92 percent of all imports.

Argentina's dominant trade partner is its neighbor, Brazil. In 1999 Brazil accounted for US\$ 11.3 billion, or 23 percent of Argentina's total trade (14.9 billion in 1998). The second largest partner was the US, with

US\$ 7.5 billion (15 percent of total trade).

## Human Resources

The Argentine education system has a lot of scope for improvement, even though enrollment has soared, thanks to free public education. Educational infrastructure is poor and lecturers often do not turn up as they do many other part time jobs. Argentine teachers earn about \$300 a month in Buenos Aires and much less in other provinces. The salary is often paid late. Now, it is being cut further in the wake of cuts in the provincial budgets. Moonlighting is common as teachers rush in taxis from one college to another. Some lecturers even drive taxis to supplement their income. Teachers have been protesting against pay cuts, job cuts and salaries paid late or in bonds. The quality of teachers has deteriorated in the past few decades.

Though schooling is compulsory till the age of 15, in the later years, students drop out, usually because families need their modest earnings: (Poor Buenos Aires households earn on an average only \$57 a month). Many middle-class youngsters drop out of university, either to earn a living or because they cannot keep up with the demands of the course. At a typical public university, 25-40% of new entrants leave within a year and 60-70% by the end of a typical five year course.

In 2000, Argentina had a potential workforce of about 27.5 million. Of these, nearly 15 million were considered to be economically active-either employed or seeking employment. More than 60 percent of the active workforce consists of men, although women's participation in the workforce is increasing. Moonlighting is also on the increase. Labor by children younger than 14 is generally forbidden. Although many parents have been seeking such employment for their children in order to make their ends meet, child labor is not the endemic problem in Argentina that it is in some other countries.

In 1991, before the most radical round of cutbacks through privatization-8.1 million (61 percent) were employed in the private sector and 5.1 million (39 percent) in the public sector. In 1997 only 6.9 percent (919 thousand) were employed in the public sector (Federal, Provincial and Municipal levels), and 12.4

million (93.1 percent) worked in the private sector. About 7.3 percent worked in agriculture, 23.4 percent in manufacturing and construction, and 69.1 percent in services.

## Current scenario

In early December 2001, the Argentine financial system seemed to be on the verge of collapse. The government has put a partial freeze on bank accounts. The government has also imposed limits on international fund transfers. Cash withdrawals from banks are limited to \$250 per week. Cavallo and de la Rúa have made public broadcasts to get support for these policies and come down heavily on speculators and 'Vulture' funds for trying to bring down the country. While Argentina seems to be moving towards dollarisation, i.e., acceptance of the US Dollar as the national currency in place of the peso, there are speculations about a possible peso float, which effectively implies devaluation. In either situation, Argentines will be in for a period of shock and adjustment. ■

*The author is consulting editor, Global CEO and Dean, Icfaiian School of Management, an ICFAI affiliate.*

*Reference #15-02-01-01*