



This report was issued by TGS Buenos Aires, with inputs from Hannah C & Yuan Yuan. It covers the period from 1900 to present day.

(Situation Overview should be posted here. This is setting up the background information to provide

I. HIGHLIGHTS/KEY PRIORITIES

- Argentina currently has an upper middle-income economy; the third greatest in South and Central America.
- An abundance of natural resources, a literacy rate of more than 97 percent, a farming division that focuses on export and a manufacturing sector with various goods, aids Argentina's economy greatly.
- The policies of Juan Peron and the spending of Evita, the pegging of the peso upon the dollar and global recession are arguably key factors in Argentina's economic collapse.
- The economy has drastically improved with a real GDP growth rate of 8.9%
- Inflation is arguably the biggest economic issue Argentina faces today.
- Argentina's economy is currently recovering from past recessions and issues, and is thriving.
- Argentina was considered by The Economist as a "high risk" country, because of the unnaturally rapid GDP growth.

II. Situation Overview

Argentina's economy **flourished from 1900 to 1930**, where it had the tenth largest trading economy in the world. Edward L. Glaeser, an economics professor at Harvard, emphasized the fact that "In 1909, per capita income in Argentina was 50 percent higher than in Italy, 180 percent higher than Japan, and almost five times higher than in neighboring Brazil." However, **frequent economic crises and recessions, insufficient national funds, high inflation, cumulative debt** to other countries, and massive flight of the capital have brought Argentina's golden age to end, and continues to bring economic instability to the nation.

Argentina currently has an **upper middle-income economy**; the third greatest in South and Central America. An abundance of **natural resources**, a literacy rate of more than 97 percent, a farming division that focuses on export, and a manufacturing sector producing various goods, aids Argentina's economy greatly. It is still, however, recovering from the economic instability that resulted from many issues in 2001, and most of the 20th century. When Nestor Fernandez de Kirchner stepped down from power to let his wife Cristina become President in 2007, the swift increase of economic development from prior years decreased. This was because of the government's **restriction of exports** and the world's 2009 recession.

III. Why did Argentina's economy collapse?

Juan Peron's government followed an **isolationist foreign policy** (See Glossary). Peron's attempt at **economic independence** included nationalizing foreign-owned railways and banks, paying off a large debt to the Bank of England, creating a single marketing agency for exports and consequently increasing

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government spending. Peron utilized the economic policy of **protectionism**, which put tight limits on trade and imports. These policies resulted in the demise of the economy because they “were not in a position to promote its development without outside aid” (Columbia 2000). Further, Peron **directed investment very poorly**, once pouring 50% of the government’s investment into national defense. The fiscal policies that Peron put in place did not support economic growth. Even so, some like to blame Argentina’s economic collapse on the lavish spending of Juan Peron’s wife, Evita.

In the policy of **convertibility**, the Argentine peso was pegged unto the dollar, in the hopes of stabilizing the peso and limiting local control over financial policy. This resulted in **overspending** of more than 30% of the **GNP**, which meant a huge increase in **government debt**, and **skyrocketing interest rates** during different economic crises around the world. Argentina lapsed into their 1998 **economic recession**. This peg was later abandoned in 2001.

IV. What is Argentina’s economy like today?

Since the 2009 recession, the economy has drastically improved with a **real GDP growth rate of 8.9%**, the 11th highest GDP in the world. However, this could be considered “**unsustainable**.” Argentina was deemed by the Economist as a “high risk” country, because of the unnaturally rapid GDP growth. The government still advocates for expansionary fiscal and monetary policies, which is resulting in making Argentina’s high inflation even higher. Their spendings of \$113.3 billion US dollars **exceeds their revenues** of \$105.8 billion, causing them to lose money and increase their already **massive external debt** that is the 35th largest in the world. They continue to make money off of exports of soybeans, petroleum and gas, vehicles, corn and wheat, exporting it to China and Brazil to keep up their booming economy.

Inflation is arguably the biggest economic issue Argentina faces today. The Guardian informs that “the government says the annual rate is currently just under 10%, but unofficial figures put it as high as 25%” That would make Argentina’s inflation the fourth biggest in the world. It affects the low classes especially, due to Argentina’s sizable **gap between the rich and the poor**. In fact, 30% of the population live in poverty, and the wealthiest 10% of households make and consume more than 21 times the bottom 10%. The current exchange rate is 4.1 Argentine pesos for 1 US dollar, and The Argentine Independent claims that the Argentine peso has “devalued against the US dollar by 5.0% in the last 12 months”.

An ongoing issue, as is evident in Argentina’s agricultural industry, is it’s import-export policies. In an effort to maintain social order, the price of products that are imperative to Argentina culture, like beef are controlled by the government. This means that farmers may lose a lot of money, in a situation where the means of obtaining a piece of meat is more expensive than what the government will allow it to be sold at. **Argentina’s exports are much greater than its imports**, in a vouch for economic independence. However, because Argentina **relies so heavily** upon their exports, in a time of **global recession** where no other countries can afford to import and when few people are buying, the Argentine economy suffers severely.

In conclusion, Argentina’s economy is currently **recovering** from past recessions and issues, and is thriving. They do this with their abundant natural resources, exports and the flourishing economies of China and Brazil, the main countries that import their goods. There are still flaws, however.

V. Glossary

Economic Independence: Self sustainability; not having to rely on other countries to sustain their economy.

Expansionary Fiscal and Monetary Policies: Policies relating to government income which increase government investments and decrease taxes.

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External Debt: How much money the country owes to nations/companies outside of their own stability or increased returns.”

Flight of the Capital: “The movement of money from one investment to another in search of greater

GDP: “Gross Domestic Product; the total value of goods produced and services provided in a country during one year.”

High risk: “Not financially safe or secure”

Inflation: When the value of the currency decreases, and prices increase. A healthy inflation rate is considered to be about 2% or less.

Isolationism: “A national policy of abstaining from political or economic relations with other countries.”

Nationalizing: To transfer something of private-ownership to state-ownership/control.

Marketing Agency: “An organization created by many producers to try to market their product and increase consumption and thus prices.”

Protectionism: “Laws or other rules that make it easier for their own products and brands to sell by making goods from foreign countries more expensive or harder to get.”

Recession: “A long period of temporary economic decline during which trade and industrial activity are reduced, generally by a fall in GDP.”

Revenue: Income.

VI. Contacts

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