

Australian Political Exchange Council

Report – Visit to Argentina

By Patrick Gorman

Executive Summary

I travelled to Argentina from 7-19 December 2011 on a political exchange which coincided with the inauguration of President Christina Fernandez de Kirchner and followed the national and provincial elections.

Being able to see the Presidential Inauguration first hand and discuss with a number of political parties their lessons from the recent elections was invaluable. To also be able to draw links between the cultural and political history of Argentina to draw understanding on the current public policy positions of the government was particularly useful.

There was particular interest from those who I met with on Australia's agricultural sector, trade and tax reform agenda, participation in the G20, and economic policy more generally. I found most people I met with to have an incredibly positive view of Australia and a strong admiration for the economic reforms that Australia had undertaken while still being able to provide a strong social safety net.

My program was coordinated with the APEC and the Australian Embassy headed by Ambassador Patricia Holmes. I extend my thanks to all those involved for their assistance.

There were, however, a number of challenges initially in gaining access to certain parts of the Argentine political system, particularly in connecting with various political parties. Once I was able to gain access to political leaders and key public servants (a distinction which is weaker than that in Australia due to Argentina's presidential system of executive government) I found a great interest in further political exchange and interaction with Australia.

There is a hard road of economic reform ahead of Argentina, one that it is slowly embarking upon with reforms to utility pricing, aged pensions, tariff reduction and encouraging investment. As this transformation occurs, so too will its political system, to a more stable and liberal democracy than the country has seen in the past century. As this transformation occurs there will be more and more opportunities for Australian political parties to engage with our Argentinean friends.

There was no doubt left in my mind that while the old divisions of country and culture in Argentina came from its region and Spanish colonial history, the current cultural and economic gap between Australia and Argentina is based entirely upon distance. The concern about the cancelling of the direct Sydney-Buenos Aires flight amongst some that I met was

that the small gains being made (and the potentially huge gains that could be made) through closer business ties could be lost.

Argentina and Australia share many things in their socio-economic back stories - agricultural and mining interests, a protectionist economic past and a colonial history. There are also many differences.

For the first time in modern economic history the emerging economies of the world are larger in economic size than the developed economies. While Argentina is just once such country - the opportunities for Australian greater political engagement with the developing countries of South American was demonstrated clearly by this exchange.

I believe that the APEC should continue to grow its focus on South America and those countries where Australia has growing interests such as Argentina.

Meetings and findings

I cover a range of policy and political topics later in this report; this section covers reports of selected meetings, events, visits and related observations and findings.

Inauguration of President HE Cristina Fernández de Kirchner, Saturday 10 December 2011

The Inauguration was a particularly colourful event with high ceremony and a long and detailed policy speech by the President. I attended with an official from the Australian Embassy and stood in the crowd amongst varieties of Peronist supporters. Interestingly, it was not just Peronists there to support the Inauguration, flags for unions and a variety of socialist and communist parties and causes also coloured the 2km corridor of the procession from the Congress to the Casa Rosada. The festive atmosphere was punctured only once with the appearance of Vice-President Julio Cobos who had voted against a tie in the Senate on agricultural reforms that the President had proposed in 2008, including an increase on grain export taxes.

The attendance of a number of other South and central American presidents including from Brazil, Bolivia, Chile, Guatemala, Honduras, Paraguay and Uruguay was an interesting demonstration of the regional solidarity of the region.

From an Australian perspective the ceremony not only showed a completely different level of political engagement (the Radical Civic Union claims one million members in a country with a population of 40 million) but also a much more formal departure from our own system of government - with a 2 month gap from election to inauguration allowing not only for a much more planned transition but also for a much more grand community-based celebration of the occasion. This celebration not only included saturation media coverage, but was also billed as the first Presidential Inauguration to be streamed live to YouTube.

Meeting with Ambassador Holmes and briefing by Embassy staff, Monday 12 December 2011

This was a great opportunity to be briefed on the social and economic situation in Argentina further to my readings prior to the trip. It was another reminder of the quality of the Australian Foreign service and the professionalism which is applied to every task.

Ambassador Holmes had only recently begun her appointment and Ambassador so it was nice to be able to share first impressions while also having reasoned explanation of various policy and society norms from the locally engaged and other political staff at the embassy.

The briefing provided a useful grounding for my time in Argentina and an opportunity to further plan my program.

Lunch with Australian Business Representatives, Monday 12 December 2011

This lunch with a number of business people with links or origins in Australia was a good opportunity to learn about the on-the-ground regulatory challenges that are experienced in the Argentine economy. It was at this point also that the huge impact that the summer vacation in Argentina which runs from late December to late February has on business and productivity. The other challenges revolved around government bureaucracy and slow approvals processes.

The insight which these business people had into the cross cultural challenges of doing business between Australia and Argentina was invaluable. There is definitely a good resource to be tapped for any Australian businesses or investors looking to enter the Argentine market.

13th meeting of the Overseas University Alumni Associations, Monday 12 December 2011

This provided an opportunity to meet with a number of students who had previously studied in Australia, primarily on government or private scholarships. It is pleasing to know that the number of students from South America who will be studying in Australia will be increasing through the Australia Awards.

There were a number of diplomats from other embassies in attendance as well which showed what a fully engaged foreign service does in a country such as Argentina. While Australia's consular and economic interests will never be near as large as other friends such as the United States, there is always a case for us to be conscious of our diplomatic footprint, especially in fellow G20 countries.

Meeting with "Fundacion Pensar" 13 December 2011

This think tank had done the policy work in the lead up to the Buenos Aires City elections for Mauricio Macri who was ultimately elected at those elections with a economically liberal platform. Macri is seen as a potential Presidential candidate for the 2015 elections and was also seen as a potential candidate in the lead-up to the 2011 elections. It is a view of many that I met with that the test will be if he can take his provincial role as Mayor and use it to project to the regions of Argentina to build his national profile and party and supporter infrastructure.

It was particularly interesting that the policy challenges were not associated with development, but with economic stimulus, creating a stronger economy and economic liberalisation. There was also a strong sense that the economic course for Argentina

following default in 2000/2001 has been somewhat self-charted and that the next phase of growth in Argentina needs to be planned and prepared for much more carefully.

This think-tank was my first exposure to the strong links between academia, political researchers and political candidates.

Macri also has a strong social media presence which Pensar and others have used to develop and test policy concepts.

Meeting with Senator Sonia Escudero

Senator Escudero has had a long connection with Australia and was very kind to provide me with access to the Congress and to her staff. We discussed the internal workings of the Congress along with the broad church of the Peronist movement given her stepping away from the majority “Front for Victory” block in 2009.

The Senator was able to give an objective view of how Australia’s political and policy settings are seen in Argentina and noted particularly Australia’s action on a minerals tax and a carbon price were of great interest to policy makers in Argentina.

Meeting with “Poliarquia” think-tank and public research company

Poliarquia is an opinion and polling company that primarily does research work for the mainstream press in Argentina but is also contracted for polling work for political parties.

I was briefed on the range of research topics used by political parties in the recent election and the impact on policy and other political developments in the standing of the parties.

Interestingly, topics such as climate change and social issues (such as same-sex marriage which Argentina introduced a few years ago to much public opposition) do not rate anywhere the same to the way they appear on similar Australian surveys. Topics such as cost of living, inflation, housing and social welfare dominate the survey results.

The other interesting research I was briefed on revolved around the popularity of political leaders within Argentina. A running poll in the leadup to the 2011 presidential inauguration was held which tracked approximately 15 potential candidates (or those considered to be potential candidates at a future election). The research showed that there was a generally high regard for those in public life, but also that the power of incumbency was a particularly strong factor in the 2011 elections especially combined with a weak field of candidates.

Meeting with the Director of the National Electoral Directorate

This was one of the most fascinating meetings I held during my time in Argentina. I quizzed the Director on all of the procedures and policies underpinning the last election. I extrapolate on these further below.

For all the differences in the electoral system, there was no disquiet that I encountered during my time in Argentina about the electoral process. For a Country that has experienced military rule a number of times in its history, the reports on the peaceful participation in national elections was encouraging.

Meeting with Senator Ruperto Godoy

Senator Godoy had served as Chairman of the committee on Foreign Affairs for a number of years and had recently moved from the congress where he served two terms.

This meeting allowed me to discuss and seek his views on a range of foreign policy matters and compare them to Australia's role. We discussed the role for countries outside of the Middle East in assisting with peace in the region and Argentina's role and policy stance on recent developments including the Arab Spring. The role of the G20 and Australia's work with the President on the G20 was discussed, as was the impact of the rise of China and the Asian Century on Argentina. I noticed a number of similarities in the challenges of the two countries with Argentina being a major agricultural supplier to Asia and Australia being a major minerals supplier.

We also discussed regional institutions including MERCOSUR and the role that countries such as Australia can play.

We also discussed the use of social media in politics and Senator Godoy is a prolific user of social media with a highly active and followed twitter account and a Tumbler blog.

Meeting with Senior Advisers to Foreign Minister Hector Timberman

This was a particularly useful opportunity to understand the way in which the Government of Argentina runs foreign policy and compare and contrast with my own experience within the Australian Government.

Given the Presidential style of government many more of the policy decisions are taken by the President themselves with the foreign service providing the advice and implementation of the decisions. Unlike Australia, the foreign service does serve more at the political direction of the government of the day with more of the roles within the service changing with a change in administration.

It was also noted that the creation of the G20 along with the President's prominent role in regional affairs had been

The President's inauguration speech included the creation of a separate Trade Secretariat for the first time and it was interesting to see from our conversation how the trade linkages to the foreign affairs work of the Secretariat were not as closely linked. Much of this work rested with the economic portfolios although it is my view that the President's announcement was an acknowledgement that both foreign and economic policy need to be brought together to achieve good trade outcomes.

Meeting with Federico Sturzenegger, President of the Buenos Aires City Bank

This was the single biggest insight into the economic challenges of Argentina in recent years. The struggle for a stable currency and to reduce the reliance on the US dollar as a currency for major internal economic transactions such as housing combined with the high official inflation and even higher unofficial inflation. I remain interested that there is no large domestic home loan market and that savings is the primary source of housing finance. For this reason, monetary policy is not seen to have a strong impact on consumer sentiment.

The consumerism in Argentina is heavily focused towards smaller consumer goods - phones, televisions and luxury items. This combined with the comparatively high levels of government handouts has perpetuated the inflation problems that have delayed Argentina's economic progress.

Mr Sturzenegger also serves as a Senior Economic Adviser to the City of Buenos Aires Mayor Mauricio Macri and was happy to discuss how he sees the future of the City under Macri's leadership.

Cultural visits

Beyond the formal meetings the Embassy recommended and arranged a number of cultural visits to enhance my historical knowledge of Argentina. These were particularly valuable in gaining a deeper understanding of the history of Argentina and the political movements that the country has experienced.

The Memory Museum

This was a haunting experience with a tour of the rooms used as a clandestine centre for detention and torture while Argentina was under military rule. As a museum it was incredibly well presented with minimal interpretation or extra fixings. You literally walk through the building as it was left, and see not only the areas used, but also the futile attempts from the military using the facility to hide its secret use.

The Eva Peron Museum

I was constantly reminded that Eva Peron was a controversial figure in Argentina's history although you wouldn't know from attending this museum. The Eva Peron story has been carefully presented in a glamorous fashion to appeal to both those who want to learn about the celebrity and those who wish to learn about the political wife. In my view her role in women's rights and pushing for social justice reforms is a lasting legacy that is worthy of restoration, however, this museum caters more for the fans of the musical than those looking for historical insight.

The Casa Rosada (Government House)

A place of work for the President - this building has been the seat and formerly the house of the President for 150 years including during military rule. The building serves in a similar way to the Australian Parliament House with a publicly accessible area for tours and private areas for the work of Government.

Architecturally inspired by both American and Spanish architecture styles of the time of construction and the many renovations that followed (much like the Congress building itself). The building also pays tribute to a number of leaders of South American who have been seen to have played a significant role in the region's progress - again, like the attendance of many regional presidents to the inauguration, I found this an interesting decision and expression of regional solidarity and awareness.

Policy observations

Small business

The small business situation in Argentina seems stifled through a lack of capital, High inflation and more recently a cut in government subsidies to electricity. The result of this is small, very small, street vendors, or small footprint shops with low overheads and a large, regular turnover, restaurant industry.

There are comparatively low barriers to entry for some businesses such as taxis and retail in comparison to many western countries. The real challenge appears to be the barriers to entry for the global market place, with particular this is a problem to the global services industry.

Monetary policy

My experience in discussing economic policy was a general view that the banking system in Argentina is heavily based on transaction facilitation, rather than savings and loan provision. Interest rates have ranged between 8 and 26 per cent in the past 4 years while other economies have had their interest rates hit the floor. Inflation has, however, also maintained an unofficial rate of around 25% (official figures are much lower) again while much of the world has experienced low inflation as a result of economic contraction with some economies even experiencing periods of deflation.

The motivation for Argentina's transition to a more western banking system is clear - however the constraints applied by the current fiscal policy settings are clear. The US dollar remains a safe haven currency due to inflation concerns and due to the common practice that property and large scale real assets usually only change hands in American dollars. This also results in a larger than usual unofficial market where while the main goal is inflation avoidance, tax avoidance is an added benefit.

There is an alternative view that should Argentina decide to adopt a more activist monetary policy with a focus on inflation reduction (and therefore greater confidence in savings) that the economic benefit could be gained through an increase in investor confidence. In the short term it is unlikely that such an increase in confidence could compensate for the decrease in the value of the Peso, at least in the short term.

One final anecdote on Argentina's monetary policy is that despite a recent reliance by government on an increase in the money supply in the economy, the lack of coins in circulation. It has been long documented but the lack of appropriate circulation of coins for everyday transactions is one of the most fascinating transaction costs to observe where a transaction may not occur as a customer does not have coins and the seller refuses, or a transaction occurs without change being given.

Budget

I had the opportunity to watch the budget debate in the Congress (a recalled session which had become necessary to pass the Budget prior to the summer holidays). There were no particular measures that were in contest - my understanding of the political debate is that the disagreements are founded much more on the potential for ongoing structural deficit that is projected for Argentina.

The structural deficit that is developing is compounded by Argentina's aging population and commitments to social welfare spending. This is balanced by a strong annual growth in GDP and increasing exports, mainly in mining and agricultural products to China.

Think tanks are increasingly turning to the need for a shift in the budget focus from populist handouts to infrastructure investments. This may be easier given that the President is not able to seek a third term. The repayment of debts has also freed up potential budget surpluses for investment in infrastructure in the future.

International rankings by the World Bank of Argentina's relatively poor ranking as a place to do business, however it does rank higher than most of its South American and Caribbean neighbours.

Taxation system

The base of the taxation system is narrow and there is well known - and widespread - tax evasion. In response to tax evasion, forensic tax work and accounting is being used successfully to reduce taxation evasion.

There is an active discussion at present in Argentina amongst the Peronist party about the prospect for greater mining royalties as investment in the mining industry. They are aware of the Australian experience, but also of recent moves by state governments to increase royalties.

Cultural policy

For a country that has had a difficult history with military government I was particularly impressed with the efforts to not shy away from this history and instead to teach Argentina's national history and the lessons it gives.

Political matters

Here I have outlined a number of matters that would be useful background for other APEC delegations to Argentina and topics which would be of particular interest to the Council.

The Congress

I attended the Congress a number of times during my visit to observe the proceedings of the congress and for various meetings and briefings. The Congress itself is fascinating for its diligent style when compared to Australian parliaments. It is common for all members to be in the Congress when a member is speaking, and for speakers to sit in their places rather than stand.

The Chamber of Deputies and the Senate both have integrated electronic voting and the Chamber of Deputies itself has football style screens of the member speaking (when everyone is in the chamber and the members speak while sitting it is much harder to spot them than it is in Australia). The senate itself has seat sensors to confirm that a Senator is in fact in the chamber during a debate or vote.

The use of electronic recording has been in the Congress for a number of decades, and based on my discussions with Congress staff, many of the arguments against electronic voting for parliament that are used in Australia have not come to fruition (i.e. less accountability, more procedural votes, less engagement in the parliament). I do note that to cast a vote, members are still required to be in their places and cannot vote from their offices or remotely.

Elections

The process for elections in how people vote is incredibly simple. In essence, voters place the how to vote card for the party they wish to select into an envelope. The how to vote card contains all the candidates for that party within that region. This system is known as the Single Ballot Method. Should someone wish to vote for different parties for different positions they are required to tear up the individual voting cards and place in the envelope their selections for the various positions. The beauty of this system is that informal voting is difficult to do by anything other than deliberate intent, and the system is easy to understand. This system, while it seemed cumbersome at first, appeared to be particularly simple and effective and appears to be a model that could be successfully used in emerging democracies.

The other innovation is the use of a compulsory enrolment - with the electoral roll being populated from birth. Therefore at 18 citizens are automatically on the roll.

One of the greatest barriers to entry for potential presidential candidates was the lack of party machinery in a system where personality is a particularly large driving force for presidential elections. As most potential candidates come from provincial roles (as opposed

to ministerial positions) it was said to me that potential candidates would start about four years out preparing their potential candidacy. I found this a slight contradiction, particularly given that parties claim 1 million plus membership numbers. But the need for national profile in a country with large regional centres did make sense.

Think-tanks, the public policy process and policy advisers

Argentina has a very strong public debate culture and a high level of engagement in politics as the Inauguration showed me. The number of policy think tanks and their close work with members of Congress was a particular highlight of my trip. To see the close work between think tanks and members of congress and how this translates to policy outcomes and contributes to the public debate was quite inspiring.

In my time in Argentina I met with five think tanks, all of which had different allegiances and ideological positions. Some were more research oriented and others were more interested in the parliamentary and political process and how to improve it.

The government also appears to commission papers on a more regular basis from think tanks as opposed to the Australian model which is to select high profile people to lead reviews. I believe there is a role, particularly for Parliamentary committees, to take a more proactive role in commissioning work from think tanks as per the Argentina model.

The advisers to members of Congress were also predominantly of an academic and think tank background as opposed to a party or public service background as is the case in Australia. There was also a much more fluid role for advisers in moving between think tanks and Congress offices - and likewise in whole policy areas being essentially contacted out to think tanks on behalf of Congress members.