



Revista Anual del Centro de
Investigaciones en Estudios
Latinoamericanos para el Desarrollo y
la Integración



Universidad de Buenos Aires
Facultad de Ciencias Económicas



The structural constraints and dilemmas faced by the Argentine economy in the face of the changes in world politics in 2021. The predominance of domestic factors over the incidence of international events

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Fuente: Latitud Sur N° 16, Año 2021. UBA-FCE, CEINLADI. (En línea) ISSN 2683-9326.

Publicado por: Universidad de Buenos Aires, Facultad de Ciencias Económicas. Centro de Investigación en Estudios Latinoamericanos para el Desarrollo y la Integración (CEINLADI). *Las opiniones y el contenido vertido en este trabajo son responsabilidad exclusiva del autor.*

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Latitud Sur es una revista académica anual editada por el Centro de Investigaciones en Estudios Latinoamericanos para el Desarrollo y la Integración (CEINLADI) perteneciente a la Facultad de Ciencias Económicas de la Universidad de Buenos Aires.

THE STRUCTURAL CONSTRAINTS AND DILEMMAS FACED BY THE ARGENTINE ECONOMY IN THE FACE OF THE CHANGES IN WORLD POLITICS IN 2021. THE PREDOMINANCE OF DOMESTIC FACTORS OVER THE INCIDENCE OF INTERNATIONAL EVENTS¹

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Abstract

The Argentine economy has been experiencing a structural crisis for almost a decade, immersed in persistent stagnation with short-term crisis and inflation that is well above the world average. In this context, Alberto Fernández's management to face the pandemic prematurely prioritized the health situation over economic activity, which aggravated the stagflation inherited from the last year and a half of Macri's administration.

In 2020, Argentina evidenced a profound drop in real GDP, even compared to other countries in South America. In addition, poverty increased, and the economy experienced a significant decrease in the purchasing power of workers, especially those of the middle class.

Although in 2021, the economy showed a rebound after the pronounced fall that it had the previous year, mainly due to the lift of the sanitary restrictions since the end of 2020, the growth took place in a closed economy, with strict exchange controls, high inflation, and economic informality.

If we consider recent history, it could be said that the Argentine economic crisis responds more to domestic than international factors.

Keywords

Argentine economy 2021 – structural constraints – changes in world politics - domestic factors

¹ Fecha de recepción: 15/10/21. Fecha de aceptación: 19/11/21.

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LOS CONDICIONAMIENTOS ESTRUCTURALES Y DILEMAS QUE ENFRENTA LA ECONOMÍA ARGENTINA ANTE EL CAMBIO DE CONTEXTO INTERNACIONAL EN 2021. LA PREPONDERANCIA DE LOS FACTORES DOMÉSTICOS SOBRE LA INCIDENCIA DE LOS SUCESOS INTERNACIONALES

Resumen

La economía argentina vive una crisis estructural desde hace casi una década, inmersa en un estancamiento persistente con crisis de corto plazo e inflación muy por encima del promedio mundial. En este contexto, la gestión de Alberto Fernández para enfrentar la pandemia priorizó prematuramente la situación de la salud sobre la actividad económica, lo que agravó la estanflación heredada del último año y medio de la administración de Macri.

En 2020, Argentina evidenció una profunda caída del PIB real, incluso en comparación con otros países de América del Sur. Además, la pobreza aumentó y la economía experimentó una disminución significativa en el poder adquisitivo de los trabajadores, especialmente los de clase media.

Si bien en 2021 la economía mostró un repunte luego de la pronunciada caída que tuvo el año anterior, principalmente por el levantamiento de las restricciones sanitarias desde fines de 2020, el crecimiento se dio en una economía cerrada, con estrictos controles cambiarios, alta inflación e informalidad económica.

Si consideramos la historia reciente, se podría decir que la crisis económica argentina responde más a factores domésticos que internacionales.

Palabras clave

Economía argentina 2021 – condicionamientos estructurales – cambios internacionales – factores domésticos

Introduction

The Argentine economy has been experiencing a structural crisis for almost a decade, immersed in persistent stagnation with short-term crisis and inflation that is well above the world average. In this context, Alberto Fernández's management to face the pandemic prematurely prioritized the health situation over economic activity, which aggravated the stagflation inherited from the last year and a half of Macri's administration.

In 2020, Argentina evidenced a profound drop in real GDP, even compared to other countries in South America. In addition, poverty increased, and the economy experienced a significant decrease in the purchasing power of workers, especially those of the middle class (Palacio, 2020).

Although in 2021, the economy showed a rebound after the pronounced fall that it had the previous year, mainly due to the lift of the sanitary restrictions since the end of 2020, the growth took place in a closed economy, with strict exchange controls, high inflation, and economic informality.

If we consider recent history, it could be said that the *Argentine economic crisis responds more to domestic than international factors*. In Fernández's first year, the Argentine trade balance was favorable, but this result was obtained under a semi-closed economy model, in which foreign direct investment was scarce, even though the government successfully renegotiated the debt with the bondholders. On the other hand, the Central Bank faced a significant fall in reserves -even in rigid exchange controls, which shows the distrust in the value of the currency -product of the constant monetary issue, the historical problem of the fiscal deficit, the permanence of a parallel foreign exchange market, among other aspects. Likewise, if we consider that during the administration of the previous president Macri, Argentina obtained historical financing from the IMF and, a part of those reserves was squandered -in the speculative crises of 2018, 2019, and 2020, it is clear that *external financing is not enough to generate confidence in the Argentine economy*.

Another issue is that Argentina, mired in a structural economic crisis, faces some political uncertainties that undoubtedly influence the development of the economy. Among others, the lack of leadership that some attribute to President Fernández and the decision-making power that his vice-president Fernández de Kirchner retains, along with sectors called Kirchneristas. This raised some concerns in part of Fernández's electoral base, especially in the political sector close to the president (called *albertismo*), revealing a double command that has not been common in the country's political history (traditionally presidential).

Therefore, the development of the Argentine economy is closely linked to internal factors - economic and political, although international contexts can aggravate or qualify the crisis. The inauguration of President Biden in the United States and the prospects for greater flexibility in spending in that country suggested a scenario of possible depreciation of the dollar and a rise in raw material prices, which allowed forecasting a favorable context for Argentine exports (in 2021). However, there are no guarantees that a favorable international context could translate into stability and sustainable growth for the Argentine economy.

Furthermore, in September 2021, the government lost the primary legislative elections, suggesting that Fernández could turn to monetary and fiscal tools to secure electoral support for his second half of administration. This could imply that inflation may continue to be a problem in the Argentine economy.

The Argentine economy: between the pandemic and structural restrictions

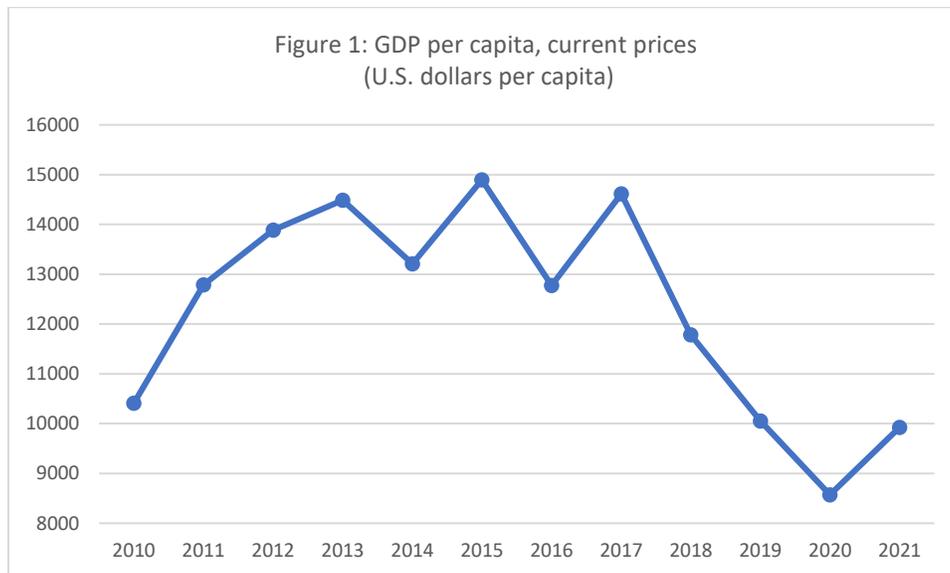
The Argentine economy has been experiencing a structural crisis for almost a decade, immersed in persistent stagnation with short-term crisis and inflation that is well above the world average. In this context, Alberto Fernández's management to face the pandemic prematurely prioritized the health situation over economic activity, which aggravated the stagflation inherited from the last year and a half of Macri's administration (Palacio, July 2020).

At the World Economic Forum in Davos, in January 2021, President Fernández spoke of leaving behind that unhappy capitalism, alluding to Luigino Bruni's book. He talked about "a global solidarity pact ... (in which) we have to overcome the opulent unhappiness of societies that discard the weakest and idolize unbridled and dehumanized profits in an amoral

way..." (Télam, 01/29/2021). However, during the first year of his tenure, most of the socio-economic indicators went worse than the previous years. In 2020, Argentina evidenced a profound drop in real GDP, even compared to other countries in South America. In addition, poverty increased, and the economy experienced a significant decrease in the purchasing power of workers, especially those of the middle class.

Conversely, to what some neighboring countries and others around the world did to deal with the crisis, Argentina's political elite refused to cut their high incomes, even some of them hold the highest positions in the bureaucracy and are among the richest people in the country.

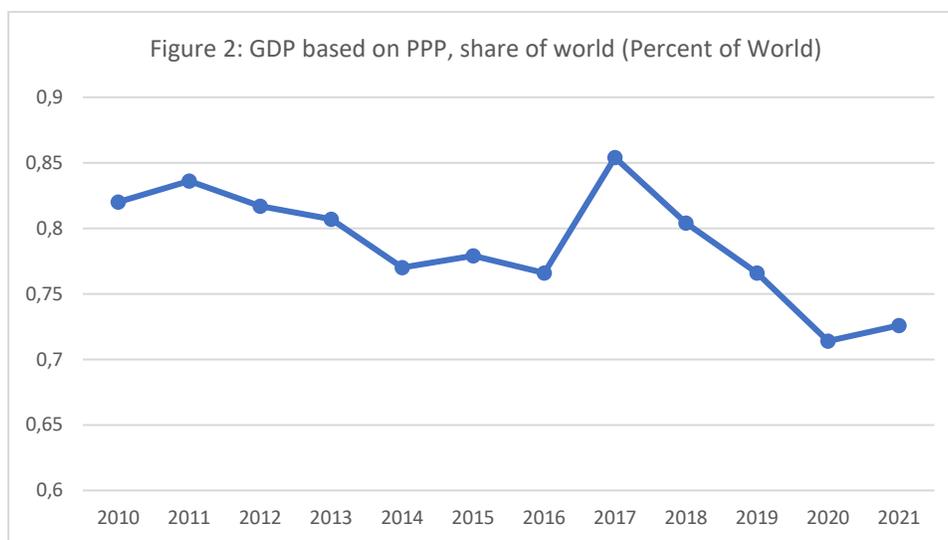
In 2021, the lifting of the restrictions imposed by the pandemic situation released the demand constrained, in 2020, allowing the economy to experience a strong rebound. Nonetheless, the structural constraints faced by the domestic economy make it difficult to foresee that, in the medium term, Argentina could face a path of sustainable economic and social development.



Source: own elaboration based on data from the International Monetary Fund. <https://www.imf.org/external/datamapper/NGDPDPC@WEO/ARG>

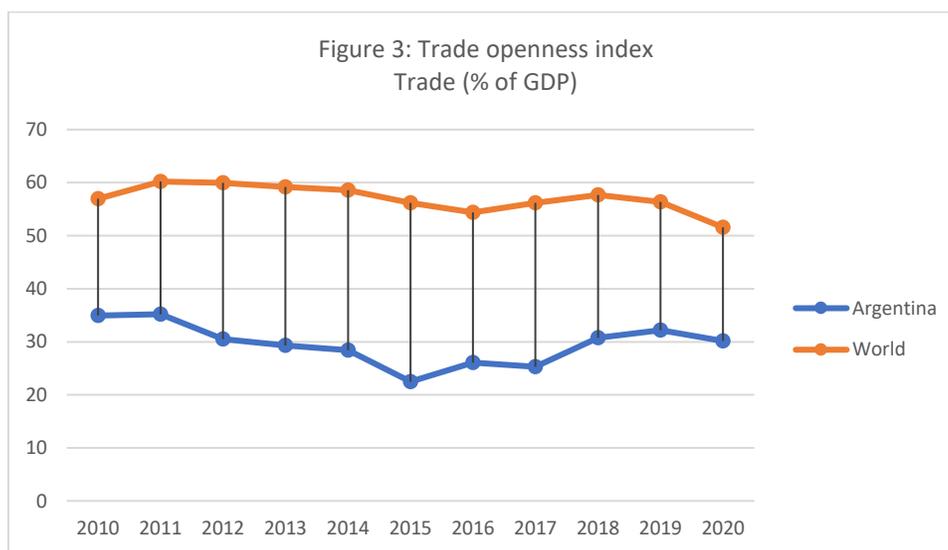
As we see in figure 1, in 2021, Argentine's GDP per capita could not even recover the level it had in 2010. It evidences the stagnation that the economy has been experiencing for more than a decade, mired in high inflation that, year after year, degrades the purchasing power of wages. According to the INDEC, the interannual inflation was 51.4% (August 2021 compared to the same month in 2020), and the accumulated inflation in the first eight months of the year, until August 2021, reached 32.3% (INDEC, agosto 2021a). On the other side, in the first six months of 2021, poverty reached 40.6% of the Argentine population and indigence 10.7% of said population (INDEC, primer semestre 2021)³.

³ According to INDEC (primer semestre 2021), the percentage of households below the poverty line (PL) reached 31.2%, and 40.6% of the population reside there; Within this group, 8.2% of households are below the



Source: own elaboration based on data from the International Monetary Fund. <https://www.imf.org/external/datamapper/PPPSH@WEO/ARG>

To this is added a decreasing trend of the Argentine GDP, in terms of world participation (figure 2) that makes explicit the lack of competitiveness of the Argentine economy, in a decade in which the relative closure of the domestic market predominated when compared with the degree of openness that prevailed worldwide (figure 3).



Source: own elaboration based on data from The World Bank. <https://data.worldbank.org/indicator/NE.TRD.GNFS.ZS?end=2020&locations=AR-1W&start=2010>

indigence line (LI), and 10.7% of the population reside there. Therefore, for the universe of 31 urban agglomerates that includes the Permanent Household Survey (PHS), 2.895.699 households are below the PL, which includes 11.726.794 people; within this group 756.499 households are below the IL, which represents 3.087.427 indigent. On the other hand, according to the agency, the incidence of poverty registered a reduction of 0.4 percentage points (p.p.) in households and 1.4 p.p. in people concerning the second semester of 2020. In the case of indigence, it showed an increase of 0.4 p.p. in households and 0.2 p.p. in people.

Even though In the first eight months of 2021, the INDEC (agosto, 2021b) calculated a favorable trade balance of 10.649 million dollars, with an interannual variation (August 2021 compared to the same month of 2020) of + 11.6% for exports (seasonally adjusted series), and -0.5% for imports (seasonally adjusted series). According to that agency, the increase in exports was due, partly, to increase in prices (30%), especially in raw materials that are the main exports of the country; on the other hand, it was due to increase in quantities (25.7%).

Despite these encouraging data on the trade balance, the economy remains semi-closed and very regulated (with price and tariffs controls). Foreign direct investment is still scarce, even though the government successfully renegotiated, in 2020, the debt with the bondholders. Likewise, in 2020, the official exchange rate devaluated about 40 %, and the exchange rate that citizens pay in the formal market, equivalent to the official exchange rate plus a tax of 30 % (called PAIS), and other tax perception of 35 %, devaluated about 147 %.

In 2021 while the official exchange rate went from \$ 84.70 on 04/01/2021 to \$ 98.72 on 09/29/21 (BCRA), the gap with the free market dollar (called blue) remained around 90% (95% in January and 89% in September) (Source: *Ámbito*). The exchange gap continues to be a shortcoming for the development of the Argentine economy and promotes informality, speculation, and evasion. In addition, these disincentives the arrival of direct foreign investment, as well as the liquidation of foreign exchange from the export sector.

Meanwhile, the Central Bank continued experiencing difficulties for sustainable increasing reserves, which went from 39.501 million dollars -01/04/21- to 42.895 million dollars -09/29/21 (BCRA). This happened even with a rigid exchange control, which shows the historical distrust in national currency (because of the constant monetary issue, the traditional problem of the fiscal deficit, the permanence of a parallel exchange market, among others).

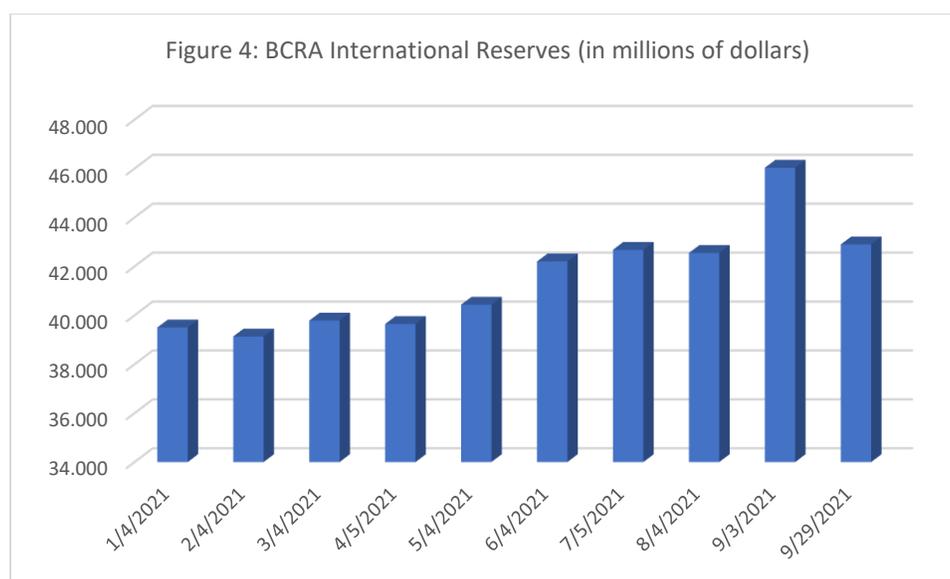
Partly, that slight increase that the reserves show is due to the extraordinary transfer that Argentina received from the SDR distribution decided by the IMF (according to the disposition taken by that agency in March 2021 to complement the global reserves of the countries in the face of the pandemic situation). The transfer was on 08/23/21 for an amount equivalent to USD 4.334 million (Argentina.gob.ar), which implied that the BCRA's reserves went from 42.048 -08/20/21- to 46.306 million dollars -08/23/21 (BCRA), meaning the highest increase that reserves experienced in the first eight months of the year. Even so, the figures for the end of September show an initial trend towards the loss of BCRA's reserves.

01/04/2021	39.501
02/04/2021	39.134
03/04/2021	39.784
04/05/2021	39.645
05/04/2021	40.433
06/04/2021	42.202
07/05/2021	42.678

08/04/2021	42.548
09/03/2021	46.033
09/29/2021	42.895

Source: own elaboration based on data from the Banco Central de la República Argentina (BCRA).

* It was taken as the reference one of the first business days of each month and one of the latest days of September to show the evolution of the BCRA's reserves in the first eight months of 2021.



Source: own elaboration based on data from the Banco Central de la República Argentina (BCRA).

On the other hand, if during Macri's administration, Argentina obtained historical financing from the IMF and, a part of those reserves was squandered (in the speculative crises of 2018, 2019, and 2020), it is clear that external financing is not enough to generate confidence in the national economy.

Argentina, mired in a structural economic crisis, faces some political uncertainties that undoubtedly influence the development of the economy. Among others, the lack of leadership that some attribute to President Fernández and the decision-making power that his vice-president Fernández de Kirchner retains, along with sectors called Kirchneristas. This raised some concerns in part of Fernández's electoral base, especially in the political sector close to the president (called Albertismo), revealing a double command that has not been common in the country's political history (traditionally presidential).

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Furthermore, in September 2021, the government lost the primary legislative elections, suggesting that Fernández could turn to monetary and fiscal tools to secure electoral support for his second half of administration. This could imply that inflation may continue to be a problem in the Argentine economy.

The payment of foreign debt is another problem facing the Argentine economy in 2021. Much of that debt belongs to the IMF and the Paris Club. The debt with the IMF comes from a Stand-By loan that the IMF granted to Argentina in 2018 - valued in Special Drawing Rights⁴. This loan, disbursed between 2018 and 2019, was exceptional due to its historical amount (around 45 billion dollars - without considering interest). Some analysts argue that the previous IMF management (led by Lagarde) made a mistake in granting Argentina that significant amount of money when the country was going through a severe speculative crisis -during the last stage of the Macri government. Others argue that the granting of said credit was a support that Trump gave to the re-election of President Macri -who failed in 2019 (remember that the United States is the main contributor to that international agency).

Argentina's debt represents a heavy financial burden for the IMF when the agency must help other member countries facing needs due to the pandemic. Likewise, it symbolizes one more diagnostic error in a controversial relationship between said agency and Argentina. For Argentina, the negotiation with the IMF is imperative since the country obtained, in June, a grace period from the Paris Club until March 2022, after agreeing that it would pay 430 million dollars to that organization, instead of the 2.4 billion dollars that expired in July of this year. This agreement allowed it to avoid the default with the Paris Club and represented a debt relief of 2000 million dollars for this year (DW, 06/22/21), considering that the country could not still seal an agreement with the IMF.

So, the agreement is necessary for Argentina and the IMF -although, there is a tacit consensus that the terms will be extended because the IMF does not accept reductions in the countries' debt with it. Possibly, the Biden administration will not obstruct the completion of this negotiation. However, the main concerns come from the Argentine political sphere since the country should apply a series of readjustments - traditionally demanded by the IMF - that provoke resistance within the Fernández administration (especially in sectors of Kirchnerism). Even political opponents criticized the government for some adjustments already implemented by Economy Minister Guzmán (such as reducing the salary increases of retirees in Argentina). In an electoral year, a commitment to reduce the fiscal deficit was not very viable for a government that calls itself a "Peronist."

The Argentine economy is almost outside the international capital market, and Argentine assets are of little interest to foreign investors (much more without an agreement with the

⁴ It is the currency of the IMF, whose value depends on the average of a basket of currencies made up of the US dollar, the euro, the British pound, the Chinese renminbi, and the Japanese yen.

IMF). It is not only that the structural economic crisis and the rigid exchange control are a discouragement for potential investors but also Argentina's historical legal insecurity. Many view Fernández's economic management with distrust because of the political weight attributed to Kirchnerism.

The possible impacts of global political changes, on the development of Argentina, by 2021

In addition to the prolongation of the pandemic, perhaps the most important political change that occurred globally in 2021 was the change of government in the United States.

The inauguration of President Biden in the United States, with a more flexible, open, and less confrontational agenda with Latin America than the neo-mercantile position evidenced by the former President Trump, would not necessarily translate into an alignment of Argentina's foreign policy or an immediate benefit for the Argentine economy. President Biden was vice president of Barack Obama, with whom Cristina Fernández de Kirchner had a distant relationship and some tensions in the rhetorical, judicial, and economic levels. Although some analysts believe that Fernández could exercise a pragmatic foreign policy that differs from the tense relations that his vice president maintained with the United States, he has shown his longing for those periods in which predominated in the region left and center-left governments (Hugo Chávez in Venezuela, Lula da Silva in Brazil, Evo Morales in Bolivia, etc.).

His government even granted political asylum to former president Evo Morales and explicit support for the candidacy of Luis Arce in Bolivia - even at the cost of meddling in domestic political affairs in that country. Likewise, Fernández refused to recognize Guaidó as interim president of Venezuela (an issue on which the Biden administration continues with the position of his predecessor, Donald Trump) and, although his government has recognized the human rights violations denounced by the UN, at the beginning of January of this year, Argentina sent representatives for the assumption of the controversial Venezuelan assembly (considered illegitimate by the United States, the Lima Group, and many other countries).

On the other hand, last year, Argentina tried to impose Gustavo Béliz as a candidate to preside the Interamerican Development Bank (IDB), seeking to boycott Mauricio Claver-Carone - the candidate proposed by the United States. However, the Argentine initiative did not find an echo in most of the region, and the US candidate ended up prevailing, which meant a new turn in the traditional policy of that body (historically led by a Latin American).

The Argentina's ruling coalition reveals an anti-American sentiment that has traditionally characterized a part of the society. Despite the affinities that could be found between the Biden administration and the Argentine government -fundamentally, in areas such as the climate change agenda or other multilateral issues, the air that prevails amid some Argentine politicians tends to associate the United States with an imperialist country; and the anti-imperialism or the search to counterbalance US power, always had adherents in Argentina.

The purchase of vaccines for Covid caused another controversy in Argentina. Even though the country had contributed from the beginning to the development of the Pfizer vaccine, in 2020, the government decided not to agree on the acquisition of them. On the contrary, it

decided to buy the vaccines from Russia. Although this year, due to the prolongation of the pandemic and the difficulties in supplying the Russian vaccine (Sputnik), the government ended up negotiating the purchase of vaccines from other laboratories, including Pfizer. Some argue that the initial bet for the Russian vaccine was due more to ideological issues of the ruling coalition than to the health interests of the Argentine citizenry.

Finally, while some speculated that the tension between Brazil's Biden and Jair Bolsonaro could represent an opportunity for Argentina to become a regional leader and a counterpart to the United States, this position appears to be closer to being filled by Mexico than Argentina. The ideological tensions observed within the Argentine government could lead to different positions with the United States at the regional level; likewise, López Obrador has proven to be a pragmatic president who even managed to maintain good relations with the confrontational Trump.

Furthermore, although the United States is still an important trading partner for Argentina, and this country received, in July 2021, a donation of 3.5 million vaccines from the United States government to face the pandemic, the bilateral relations in these eight months have not progressed. They stayed more at a rhetorical level without concreting practical strategies.

Some reflections on the looming international outlook

Between the seventies and eighties of the twentieth century, in the field of international political economy proliferated some studies that focused on the decline of the United States' power, especially around the Theory of Hegemonic Stability (whose mentor was Charles Kindleberger). In those studies, the academics focused on what an international transition would be like in the face of the weakening of the US power and which power would take its place on the world stage (at that time, the US faced a severe stagflation crisis).

However, a large part of these studies lost relevance during the 1990s because of the implosion of the Soviet Union and the consecration of the United States as a world power. At the beginning of this century, some scholars used the term "empire" to refer to the United States (as for unilateral power). Nevertheless, the last international financial crisis originated in the United States (2007-2009) made explicit the vulnerabilities and fragilities of their economy due to the deficit that the country has been dragging for a long time. The triumph of Donald Trump represented an attempt by the formal working class and the conservatives of that country to revive their historical power, threatened by the rise of China.

The Trump administration maintained a neo-mercantilist imprint unleashing what some called a "trade war" with China and has held a tough stance in the economic and migratory field with Latin American countries. Its foreign policy seems to have marked a realistic parenthesis in the idealism that has predominated in the projection of that country -under the Wilsonian imprint (see Kissinger, 2001). It is important to remember that liberalism (idealism) does not necessarily imply the non-use of war as an international intervention mechanism. For that reason, it was not surprising that the Trump administration avoided new wars for that country while it showed its complacency with Russia (China's potential rival in the Asian region) and promoted negotiations with Maduro in Venezuela.

Biden's foreign policy could take up some aspects of that idealism -traditional in the US foreign imprint, which envisions more conflictive relations, with countries like Russia, and even with China (as his government already demonstrated during the first months of his mandate). Even so, perhaps domestic issues could weigh more heavily in the immediate challenges facing the Biden administration, rather than concern for its regional projection towards Latin America and, much less, towards Argentina. The severe crisis that the United States is experiencing because of the pandemic, the political polarization that caused Trump's failed reelection, and the high indices of ethnic confrontation are some troubles dragged by that country. Beyond resuming a position in the multilateral sphere (to make up for the isolation shown by the Trump administration), at the Latin American level, the priorities of the United States may focus on migratory issues and trade issues - especially around Mexico, Central America, and some traditional allies of that country.

Perhaps some scholars will be tempted to revisit those concepts that alluded to the weakening of the power of the United States and try to project them for the current century.

The debate on domestic factors versus international factors in International Relations and the Argentine case as a counterpoint to the analysis of Snyder (1991)

From the International Relations (IR), the issue of the incidence of domestic (internal) factors in international events and studies has been a matter of debate for one of the main theoretical traditions of this discipline, such as Realism.

In *Realismo y Cambio Internacional* (Palacio, 2019a), the author argues that domestic factors are significant in the study of international affairs. Her argumentation is based on the work of Robert Gilpin (1981), one of the great thinkers of realist theory. Following Gilpin's approach, Palacio points out that multiple internal factors could weigh on the foreign policy of states, such as political personalities, socio-political and economic structure, among others. In addition, that internal factors are relevant, dynamic, and intervene in the rise and fall of the great powers. Thus, she points out that: "internal and external developments are in many cases merely different aspects of the same set of operating forces; they are distinguished from one another only for analytical purposes" (Gilpin, 1981: 159 cited by Palacio, 2019a: 246).

On the other side, she also emphasizes the role of political leaders. The changes in the history of the world have been driven by political or military leaders or elites, who have grasped the environmental possibilities, and rearranged their societies to take advantage of such opportunities (Gilpin cited by Palacio, 2019a: 246-7). Likewise, Palacio points out that the transcendence Gilpin attributes to political leaders takes his approach away from structuralist realism and brings it closer to the cognitive perspective⁵. Cohen (2008 cited by Palacio, 2019a: 247) shows that the level of cognitive analysis is analogous to Waltz's first image. It focuses on the ideas and consensual knowledge that legitimize government decision-making - in contrast to the rational actor model (prevalent in contemporary realism).

⁵ It is also known as constructivism.

Palacio (2019a) says that Gilpin's appreciation of the domestic factors that influence the process of systemic change allows incorporating both aspects of the cognitive level in the realistic study. On the other hand, regarding the connection between domestic and international factors, Gilpin (cited by Palacio, 2019a) considers the relationship between public and private profit is fundamental. He says property rights are a mechanism to reconciling social and private benefits or costs. That way, he recognizes the role of elites but also the importance of influence peddling within the state.

Snyder (1991 cited by Palacio, 2019a: 248) observed that among the great powers, domestic pressures often outweigh international ones in the calculations of their political leaders. Furthermore, he concluded that influence peddling exists in almost all political systems, to some degree, and tends to benefit the interests of concentrated groups. The role of domestic factors in international politics has already been recognized by classical realists. Even in the American academy, one of the promoters of domestic analysis was Katzenstein, who - in 1978, published an investigation that demonstrated that domestic structures shape political strategies in the international political economy (Cohen, 2008 cited by Palacio, 2019a: 248).

Likewise, Palacio (2019a) maintains that another significant contribution in the study of domestic factors came from Robert D. Putnam. In *Diplomacy and domestic politics*, the logic of two-level games (1988), Putnam argues that domestic politics and international relations are generally tangled. It is fruitless to debate whether domestic politics determine international relations, or vice versa, because the answer is "both, sometimes." There are episodes of diplomacy where the interpretations made, in terms of domestic causes and international effects (Second Image), or international causes and domestic effects (Second Inverted Image), constitute a partial equilibrium analysis. In this partial analysis, part of the story is lost; fundamentally, how the domestic politics of many countries are entangled through diplomatic negotiation (Putnam, 1988 cited by Palacio, 2019a: 248).

For Putnam, the politics of international negotiation is a two-tier game. At the national level, the domestic groups pursue their interests by pressuring the ruler to adopt favorable policies, and politicians seek power by forming coalitions between these groups. At the international level, rulers seek to maximize their ability to satisfy domestic pressures while minimizing the adverse consequences of foreign developments. Neither game can be ignored by the main decision-makers, while their countries remain interdependent but sovereign (Putnam, 1988 cited by Palacio, 2019a: 249).

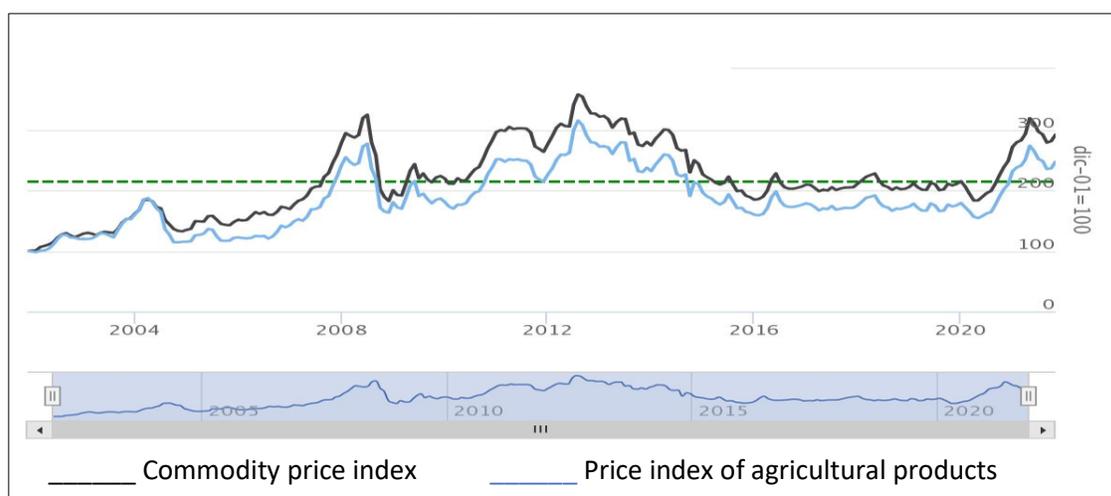
Furthermore, Palacio says that many authors criticized structuralism realism for leaving aside domestic factors. Putnam criticized state-centric literature that exposes the state as a unitary actor. He argues that a way of considering the domestic determinants of foreign policy must take into account politics: parties, social classes, interest groups (economic and non-economic), legislators, and even elections, and public opinion, not only executive officers and institutional agreements. He points out that even if the state legislature is arbitrarily excluded, as much of literature does, it is wrong to assume that the executive is unified in its vision. Central executives have a role in mediating between domestic and international pressures because they are directly exposed to both spheres, not because they are united on all issues or isolated from domestic politics (Putnam, 1988).

This way, Palacio (2019a) argues that to give a greater degree of realism to realism, the inclusion of domestic factors is fundamental when studying the political practice of States, especially the powerful ones. Although, this article aimed to the analysis of a peripheral country in world politics, such as Argentina. For Palacio, the approximation between theory and practice is only possible if the former incorporates into the analysis of international relations the multiplicity of factors that, according to events, influence the decision-making of States and, more precisely, of their politicians.

Although Argentina is a peripheral country whose macroeconomy is influenced by the events of the world market, due to its historical dependence on primary exports, it is evident that its domestic factors, especially the ideology of the ruling elite, play a predominant role in the position adopted by the country, both regionally and globally. This situation was observed from the beginning of the Kirchner governments, first under the management of Néstor Kirchner, and later it became more evident during the two governments of his wife, Cristina Fernández de Kirchner. However, during the Macri administration, the weight of internal factors also played a predominant role in the definition of government policies, compared to the impact of international events (Palacio, 2019b). Likewise, the weight of ideology in the current government of Alberto Fernández is also explicit, due to the significant role played by the former president and current vice-president, Fernández de Kirchner, in said administration.

Despite having a favorable context, due to the growth in international prices of raw materials, especially since the second half of 2020, the relative closure of the domestic economy makes it difficult to buy imported products, even those originating in MERCOSUR. Furthermore, the relative isolation of capital markets, as well as the support for left or center-left political regimes in the region, even at the cost of experiencing some political isolation and deepening divergences in the regional bloc, also show that Argentine governments weigh the impacts of political decisions, more at the national level than at the international level.

Figure 5: Commodity price index and the price index of agricultural products



Source: based on data from the Banco Central de la República Argentina (BCRA).

The cost of financing for companies -especially SMEs- continues to be high, even after discounting the persistent and high inflation that the economy has experienced for more than a decade, which translates into negative expectations for entrepreneurs, which undermines initiatives investment.

Possibly the situation could be explained by arguing that part of Fernández's electoral support base assumes an anti-capitalist ideology since they consider that this model is responsible for the significant layer of structural poverty generated in the country in recent decades. These social and political groups claim subsidies and social benefits that, in savage capitalism, it would be difficult to implement. In some way, these claims agree to claims raised in the last decades, at the regional and international level, concerning the human right to a universal subsidy for maintenance.

Final thoughts

Although in 2021, the economy showed a rebound after the pronounced fall that it had the previous year, mainly due to the lift of the sanitary restrictions since the end of 2020, the growth took place in a closed economy, with strict exchange controls, high inflation, and economic informality.

In addition, this rebound occurred within the framework of a generalized recovery that the world economy showed after the great fall that occurred the previous year due to the pandemic. Thus the recovery of the economy was driven by domestic demand and by a favorable international context experienced by the country due to the high prices of raw materials, which meant a tailwind for the Argentine economy.

However, Argentina faced difficulties in meeting its international debt commitments with the IMF and the Paris Club, which implied that part of the profits obtained by the government from renegotiating the debt the previous year was diluted. Therefore, Argentina continues to be excluded from the international capital markets.

This means that part of government spending continues to be covered with monetary issuance, which translates into persistent inflation that has degraded the competitiveness of the Argentine economy for ten years. As the BBVA (05/01/2021) points out, the pandemic left the country with two macroeconomic imbalances: 1) a record fiscal deficit in the last 40 years, and 2) an excess of pesos that the economy must process, as a result of the monetary issue necessary to cover the said deficit in 2020. In addition, the government continues to bet on the official exchange rate as the main anti-inflationary anchor. It implies that the gap with the currency traded in the blue market (unofficial) reaches almost 100%.

The cost of financing for companies -especially SMEs- continues to be high, even after discounting the persistent and high inflation that the economy has experienced for more than a decade, which translates into negative expectations for entrepreneurs, and undermines initiatives investment.

Nevertheless, if we consider that during the administration of the previous president Macri, Argentina obtained historical financing from the IMF and, a part of those reserves was

squandered -in the speculative crises of 2018, 2019, and 2020, it is clear that external financing is not enough to generate confidence in the Argentine economy.

Informality, poverty, and the degradation of the purchasing power of the middle class are factors that, in a certain way, have been functional to sustain in power the elites that offer minimal aid (subsidies) in exchange for electoral fidelity. For this reason, the politicians tend to look inward, to guarantee their permanence in power, rather than outward, where the country -more and more- loses relevance, both in terms of production and participation in trade and world politics. Therefore, for Argentina, domestic factors seem to predominate over international ones when governments define the course of national and foreign politics.

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