

Committee: The Economic and Social Council

Issue: The provision of international aid towards Argentina's economic recovery

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INTRODUCTION

Argentina's current economic expansion is now more than 17 and a half years old and has far exceeded the expectations of most economists and market researchers. Despite a record sovereign debt worth \$100 billion in December 2001 and a financial collapse in the same year, the economy began growing just three months after the downfall and has sustained growth since then. During this period, the country's GDP has grown by more than 52 per cent, making Argentina the fastest growing economy in the western hemisphere during that time period. In this certain time period, more than 11.5 million people, in a country of 39 million, have been upgraded onto the positive side of the poverty line. Furthermore, this recovery was accomplished without any help from the international financial institutions (IFIs) that had (led by the International Monetary Fund) provided tens of billions of dollars' worth of loans prior to the collapse and with the use of macroeconomic policies.

In 2018, Argentina implemented a new economic plan that is designed to put the country's debt on a firm diminishing route, that will reduce inflation, and reinforce the independence of the Central Bank. The plan is supported by a \$50 billion Stand-By arrangement from the International Monetary Fund, and this is expected to help restore the market confidence in the country's economy, which is the third largest in South America. As stated above, the plan that the government has committed to is an economic program that reduces borrowing, reduces public debt, and strengthens the credibility of the central bank's inflation targeting framework. At the same time, the plan intends to protect society's most vulnerable from the inevitable negative effects that cut in some kinds of spending will have on the economy. Ultimately, the objective of the program is to pave the way for stronger, more sustainable and equitable growth that can benefit all Argentines. The government's goal is to achieve a primary balance—that is, a balance of revenue and spending at the

federal level that does not include interest payments—by 2020. These programs are also aided with other countries investing and providing international aid to Argentina.

DEFINITION OF KEY TERMS

Economy:

According to the Collins dictionary, “An Economy is a system according to which the money, industry and trade of country or region are organized. This means that the inter-related production as well as consumption activities play an important part by influencing the fluctuation of money throughout the country and determine how scarce resources are located.”

Funds:

“A fund is a source of money that is allocated for a specific purpose. A fund can be established and used for any purpose, whether it is a city government setting aside money to build a new civic center, a college setting aside money to award a scholarship, or an insurance company setting aside money to pay its customers’ claims. These funds can also be in the form of subsidies to aid domestic companies.”

Deficit:

“A deficit is an amount by which a resource, especially money, falls short of what is required. A deficit occurs when expenses exceed revenues, imports exceed exports, or liabilities exceed assets. A deficit is synonymous with shortfall or loss and is the opposite of a surplus.”

Fiscal and Monetary Policies:

“Fiscal policy is the means by which a government adjusts its spending levels and tax rates to monitor and influence a nation's economy. It is the sister strategy to monetary policy through which a central bank influences a nation's money supply. These two policies are used in various combinations to direct a country's economic goals.”

Supply Side Policies:

“Supply Side Policies are policies aimed at increasing Aggregate Supply (AS). They enhance the productive capacities of an economy while improving the quality and quantity of the four factors of production. However, supply side policies are difficult to implement and take time to take effect.”

Exchange Rate:

“An exchange rate is the value of one nation's currency versus the currency of another nation or economic zone.”

Bank Reserve:

“A bank reserve is the currency deposit that is not lent out to the bank's clients. A small fraction of the total deposits is held internally by the bank in cash vaults or deposited with the central bank. Minimum reserve requirements are established by central banks in order to ensure that the financial institutions will be able to provide clients with cash upon request.”

Economic Growth

Economic growth is the increase in the inflation-adjusted market value of the goods and services produced by an economy over time. It is conventionally measured as the percent rate of increase in real gross domestic product, or real GDP.

Economic Inclusion

Economic inclusion refers to equality of opportunity for all members of society to participate in the economic life of their country as employers, entrepreneurs, consumers, and citizens.

Inclusive Development

A systematic approach that equally values and incorporates the contributions of all stakeholders and consists of equitable opportunities for economic participants.

BACKGROUND INFORMATION

During the east Asian crisis of 1997, Argentina was being referred to as a model state because of its fixed exchange rate regime. However, by 2001, due to several macroeconomic reasons the economy collapsed. This is why Argentina decided to ask help from the IMF regarding coming up with a new economic strategy as well as receiving international aid from the US and other willing countries.

Free Market Reforms (1990 - 1995)

President Carlos Menem had campaigned on a populist platform. After finding that its effects were not those of what he expected, he switched to a free-market approach that reduced the burden of government by privatizing, deregulating, reducing tax rates, and reforming the state. In January 1991 he appointed Domingo Cavallo as his Minister of Economy. The centerpiece of Menem's policies was the Convertibility Law, which took effect on April 1, 1991. It ended the hyperinflation by establishing a pegged exchange rate with the U.S. dollar and backing the currency substantially with dollars. As Cavallo explained a number of times, the idea of the Convertibility Law was to give holders of Argentine currency a property right to the dollars backing the currency—something they had not had in two generations. Argentines were allowed to use dollars more freely than compared to before, and the country developed a "monetary" system in which loans and bank deposits in dollars became widespread. This borrowing and lending of money was one of the main reasons Argentina suffered from the economic crisis.

Economic Recession in Argentina

Following a steep recession that began in 1998, Argentina faced an acute economic crisis until the second quarter of 2002. Thanks to the efforts of the IMF as well as countries that came to Argentina's support, the country managed to increase its GDP as well as lower its debts. During the recession (1998-2002), the economy had lost about 20 percent of its GDP, and the poverty rate had significantly risen from 18.2 % of households (October 1998) to 42.3 % (October 2002). It was one of the worst economic crises in the history of Argentina, and it could not have been resolved under the economic policies to which the government at that time was committed to.

One of the biggest drawbacks was the "convertibility system" under which the Argentine peso was fixed at a one-to-one exchange rate with the dollar. This had created a long, unbearable burden for the economy, and restraint with regard to monetary and fiscal policies. This created both instability as well as economic depression. Both the exchange rate and the economy were being maintained through increasing international borrowing, but this piled up an unsustainable public debt burden. Both of these policies were

overturned when the government was forced to resign in December 2001. The government at that time, as well as the International Monetary Fund (IMF), were operating under the assumption that tightening fiscal policy was the key to resolving the economic crisis, which eventually helped the economy as a whole.

		Total GDP	Private Consumption	Government Consumption	Investment	Exports	Imports	Net Exports	Domestic Absorption	Net Domestic Absorption
2002Q1 to 2002Q3	Total real % change over period	0.6	-2.5	-1.6	1.3	3.3	-15.4	22.1	-1.0	0.2
	Annualized real % change over period	1.3	-5.0	-3.2	2.6	6.7	-28.4	49.1	-1.9	0.4
	Contribution to GDP growth (in %)	100.0	-266.3	-36.7	21.9	71.3	167.8	239.1	-139.1	28.7
2002Q3 to 2004Q2	Total real % change over period	16.8	16.7	4.8	82.8	7.5	100.0	-57.3	23.6	18.4
	Annualized real % change over period	9.3	9.2	2.7	41.1	4.2	48.6	-38.5	12.9	10.1
	Contribution to GDP growth (in %)	100.0	65.1	4.1	54.5	6.4	-35.0	-28.6	128.6	93.6
2004Q2 to 2007Q2	Total real % change over period	28.4	29.7	18.6	67.0	34.8	64.4	-62.1	31.2	27.4
	Annualized real % change over period	8.7	9.1	5.9	18.7	10.5	18.0	-27.6	9.5	8.4
	Contribution to GDP growth (in %)	100.0	68.6	8.4	41.0	16.2	-22.9	-6.7	106.7	83.8
Total	Total real % change over period	50.9	47.6	22.3	209.2	49.7	178.3	-80.2	60.7	51.1
	Annualized real % change over period	8.2	7.7	3.9	4.0	8.0	21.5	-26.6	9.5	8.2
	Contribution to GDP growth (in %)	100.0	63.2	6.4	45.2	13.6	-24.5	-10.9	110.9	86.4

MAJOR COUNTRIES AND ORGANISATIONS INVOLVED

Argentina

Argentina's current economic expansion is now more than 17 and a half years old and has far exceeded the expectations of most economists and market researchers. Despite a record sovereign debt default of \$100 billion in December 2001 and a financial collapse, the economy began growing just three months after the default and has enjoyed uninterrupted growth since then. The country's GDP during this period has grown by more than 50 per cent, making Argentina the fastest growing economy in the western hemisphere during that time. In the process, more than 11 million people, in a country of 39 million, have been pulled back onto the positive side of the poverty line.

USA

U.S.-Argentine economic relations have a long history of mutually beneficial engagement. Still, Argentina is only the United States' 29th-largest export market and 54th in

imports, and accounts for less than 0.05% of total U.S. trade. The United States is Argentina's fourth largest export market and number three in imports, accounting for roughly 8% of Argentine trade, but falling well behind Brazil and China. U.S. foreign direct investment (FDI) in Argentina is third-highest in South America behind Brazil and Chile, and reflects the many U.S. firms operating for decades in all sectors of the Argentine economy.

The International Monetary Fund

The IMF or the International Monetary Fund is an organization consisting of 189 countries working together to foster global monetary cooperation to ensure financial stability, boost international trade and promote high employment and sustainable economic growth. The IMF also helps reduce poverty around the world and help countries who are suffering through a rough financial situation, in this case, Argentina. The IMF believes that the issue of Argentina's financial crisis can be resolved with smart and efficient methods as well as the production of a new economic plan to resolve the overall crisis. This means that the IMF is expected to help restore Argentina's market confidence in the country's economy. In this case the government has committed to an economic program that reduces borrowing, puts the public debt on a firm depression and finally, strengthens the credibility of the central bank's inflation targeting framework.

China

The friendly relations between Argentina and China eventually led to the formation of strong diplomatic and trade relations. Argentina is one of China's main trading partners in South America; the trade between both countries amounting to nearly \$13 billion in US currency. Before 2008, the amount of exports Argentina sent to China accounted to be 5.796 billion USD, and imports from China to Argentina totaled to be 7.649 billion USD. The trade exchange between Argentina and China showed an 80% export of soybean products to China from Argentina, and Chinese industrial exports totaling to be 98.9% of Argentina's imports. With Argentina also having a lot of available land, China has also invested in this field.

Brazil

Brazil and Argentina have had strong ties in the past which still continues into a mutually benefiting bond through trade and aid. After achieving independence from the Iberian crowns in the early nineteenth century, Argentina and Brazil inherited a series of

unresolved territorial disputes from their colonial powers. There was competition on many levels, and their respective defense policies reflected mutual suspicion, but the Brazilian economic rise in the 1980s led to the accommodation of Argentina as a secondary regional power and increasing cooperation. But with the creation of the Brazilian–Argentine Agency for Accounting and Control of Nuclear Materials in 1991, the two countries turned their nuclear competition into cooperation through mutual confidence.^[4] A high volume of trade and migration between Argentina and Brazil has generated closer ties, especially after the implementation of Mercosur in 1991. Today, the strategic relationship between Argentina and Brazil is considered to be "at the highest point in history".^[6] Argentine foreign policy has given special emphasis in "deepening the strategic alliance with Brazil in all its aspects". Likewise, Argentina has been "an absolute priority" for Brazilian foreign policy.



TIMELINE OF EVENTS

Date	Description of Event
December 1999	Fernando de la Rúa becomes Argentina's president. He campaigned on promises to save the economy and end corruption after the 10-year rule of the Peronist President Carlos Menem.
May 2000	Argentina announces £649m in spending cuts, and two days later 20,000 protesters take to the streets against the cuts.
24 August	The economy minister back then, Jose Luis Machinea, says the 2000 deficit will be about £3.6bn, £346m more than the original target.
2001	Argentina announces a new exchange rate system for exports that expands the currency peg to include euro.
21 August	IMF Managing Director Horst Koehler agrees to recommend a £5.5bn increase in Argentina's £10bn stand-by loan agreement.

21 December	Mr de la Rúa resigns after thousands take to the streets of the capital to protest against his government's handling of the country's worsening economic crisis. At least 22 people are killed in riots and looting around the country in the worst civil unrest for a decade.
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UN INVOLVEMENT: RELEVANT RESOLUTIONS, TREATIES AND EVENTS

The International Monetary Fund has played a key role in maintaining Argentina's Economic Crisis, by either lending them aid or provide a better economic plan that tends to reduce the crisis as a whole. As stated above, the IMF believes that the issue of Argentina's financial crisis can be resolved with smart and efficient methods as well as the production of a new economic plan to resolve the overall crisis. This means that the IMF is expected to help restore Argentina's market confidence in the country's economy. In this case the government has committed to an economic program that reduces borrowing, puts the public debt on a firm depression and finally, strengthens the credibility of the central bank's inflation targeting framework. The plan is given support by a \$50 billion Stand-By arrangement from the International Monetary Fund. This will be paid back in the next 10 - 20 years, when the crisis has been resolved and when Argentina has enough money to repay the debt.

PREVIOUS ATTEMPTS TO SOLVE THE ISSUE

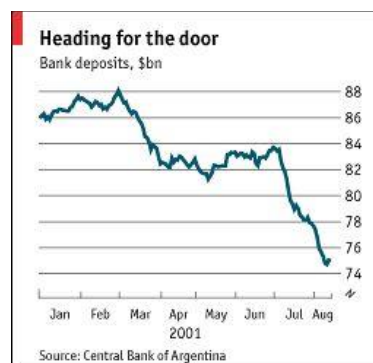
Argentina has developed a new economic plan with the International Monetary Fund that reforms the country's fiscal policy and enhances Argentina's position in terms of their economic crisis. To prevent major issues such as Hyperinflation and a greater Recession, Argentina has proposed to reduce the overall debt by reducing borrowing. This means that the country's entire lending system has been reduced, eventually causing people not to have debts anymore. Argentine President Mauricio Macri has also announced a plan to cut income taxes for workers, increase subsidies and stabilize fuel prices for three months to ease the harsh impact of the economic crisis.

There has also been a significant increase in the salaries of the working citizens, especially in the governmental sector. Currently by 12,500 Pesos. This will cause a complete

influx in the cash flow system of the country, which will eventually help the country out of the economic crisis.

Countries like the US and the UK have continued to show their support to the Argentine Crisis even till now. For example, the US has currently given \$30 billion as foreign aid to Argentina and have displayed their support by trade deals that benefit both nations. In addition, the Congress also provided \$2.5 million in assistance for FY2018 (P.L. 115-141) and FY2019 (P.L. 116-6; H.Rept. 116-9) to support Argentina's counterterrorism, counternarcotics, and law enforcement capabilities. For FY2019, the United States also is providing \$3 million in assistance to help with the influx of Venezuelan migrants. In addition to foreign aid, Argentina's status as a major non-NATO ally since 1998 makes it eligible for preferential treatment for U.S. exports of excess defense articles.

Regarding the UK, Argentina has received more than £225 billion over the last 20 years. This aid has really helped Argentina pull out of the recession and stand back up on their feet.



POSSIBLE SOLUTIONS

With the issue discussed above, the world needs many viable and outlasting solutions that can benefit humanity for the later generations and ensure sustainable inclusive development.

Making sure all nations collaborate with organizations such as but not limited to the IMF, the ICC as well as the World Bank to ensure the equal prosperity of developing nations and countries that need sustainable economic growth. This can be done by creating treaties with the help of volunteers and donations by large scale organizations.

Another big solution to the issues stated above is to introduce new economic plans that alter fiscal and monetary policies to ensure that the country's finances can be well managed.

Raising awareness is a big contributing factor to making sure that the people of the respective country know what changes are being implemented and why they are being done. This is highly important as there shouldn't be confusion when the policies change. This can be done by requesting nations to broadcast and advertise UN media channels that increase awareness. This can also be done by inculcating youth campaigns on a larger scale as multi-disciplinary events to tackle world issues.

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