

2003 | 2006 | 2008 | 2010 | 2012

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Transformation Index BTI 2012: Regional Findings Latin America and the Caribbean

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BTI 2012 | Regional Findings

Latin America and the Caribbean

By Peter Thiery¹

An overview of development and transformation in Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, the Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay and Venezuela.



This report presents the regional findings of the Bertelsmann Stiftung's Transformation Index (BTI) 2012 for Latin America and the Caribbean. More on the BTI at <http://www.bti-project.org>.

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Overall, Latin America's progress toward transformation between 2009 and 2011 should be seen in a positive light. Nevertheless, core problems either remain unsolved or have intensified. While most governments have systematically and successfully confronted the emerging economic crisis, and political transformation has, on average, hardly suffered any setbacks, the persistently high levels of social inequality, the fixation on exports of raw materials and the erosion of stateness make for a cloudier future. The brief flare-up of global economic crisis and the noticeable slump in growth in 2009 did not leave any lasting traces on power politics, which is why, by and large, the divergent development paths did not change. Moderate strategies – whether more conservative in nature, as in Colombia, or social-democratic, as under Lula in Brazil – continued apace alongside the more radical strategies in Venezuela, Ecuador and Bolivia. One exception is Honduras, where the clash between these opposing tendencies led to a coup against President Zelaya and the restoration of the “old” order. As such, drastic breaks were only experienced in two countries, which suffered the greatest losses in the Transformation Index in the period under review: Haiti after the earthquake and Cuba, whose existing socioeconomic model of development appears to have failed.

At first glance, the data in the BTI 2012 appear to show little change in the areas of political transformation, economic transformation and transformation management. Whereas political development shifts between stability and stagnation, economic development shows slight improvement overall, considering firstly the crisis conditions and secondly the separate reversals in Cuba and Haiti. Not much else has changed in transformation management: successful management performance continues to exist side by side with development that experiences ups and downs or transformation strategies that are not geared toward a democratic rule of law or a market economy, as in Venezuela. At second glance, positive trends are certainly identifiable in places such as El Salvador or Paraguay, but it remains to be seen whether they will last.

Despite the slightly positive transformation of recent years, fundamental development problems remain. These include, above all, the ongoing and unaltered major social inequality that has built up over many decades and the lack of interest shown by broad segments of the elites in combating the situation. This continues to restrict opportunities for large sections of the population and has occasionally led to radical political shifts in some countries in recent years. Secondly, the elites have not yet sufficiently understood the need to change political course and to implement targeted structural policies that would build upon the successful growth achieved by the raw materials boom. The relative stagnation of the region's economic model, Chile, is an expression of indecisive management, at the very least, in these two areas. Thirdly, development of the rule of law has been stagnating for years in almost all the countries in the region, which encourages informal arrangements and exacerbates imbalances of political and economic power. Finally, the problem of organized crime continues to escalate with no sign of abatement. Mexico and Guatemala are merely the most obvious examples of the erosion of the state monopoly on the use of force that characterizes the majority of Latin American states and that continues to undermine what is already a fragile social structure.

Political transformation

Latin America's political transformation continues to vary, ranging from successful consolidation, to the fragility of defective and highly defective democracies, to isolated cases of authoritarian regression. The strengthening of democracy in Uruguay exists alongside the coup in Honduras, the further entrenchment of autocracy in Venezuela and the collapse of Haiti. This development is defined by four key factors: a high level of social inequality, which is increasingly expressed in political resentment and occasionally provokes populist experiments; the weakness of the rule of law, which encourages the de-institutionalization of political processes; fluctuations in the quality of the party system, which is often unable to cope with vested interests; and, above all, an increasingly fragile stateness, which in some countries has also come under mounting pressure from organized crime.

Although Latin America should still be considered a democratic region, the quality of its democracy has not improved in recent years. Instead, the BTI data suggest a slightly backward trend. For example, the average score has dropped from 7.02 in BTI 2008, through 6.97 (BTI 2010) to 6.83 points now. Nevertheless, this decline is primarily due to Haiti (for BTI 2012) and Venezuela (which was classified as an autocracy for the first time in the BTI 2010). Having said that, the average scores conceal a situation in the various countries that is as complex as it is diverse and that should be cause for concern. The majority of the region's countries remain defective or even highly defective democracies with a greater or lesser potential for instability, as was demonstrated by the case of Honduras in 2009. Overall, Latin America gives an impression of democratic stagnation, even if this impression obscures very divergent developments, and any progress is canceled out by setbacks.

Table 1: State of political transformation

Democracies in consolidation	Defective democracies	Highly defective democracies	Moderate autocracies	Hard-line autocracies
Score 10 to 8	Score < 8 to 6	Score < 6	Score > 4	Score < 4
Uruguay	Panama	Nicaragua	Venezuela	Haiti ▼▼●
Costa Rica	Argentina	Ecuador		Cuba
Chile	El Salvador	Guatemala		
Jamaica	Dominican Republic			
Brazil	Paraguay			
	Mexico			
	Bolivia			
	Peru			
	Honduras			
	Colombia ▲			

The table is derived from the BTI 2012 index data for the "political transformation" dimension. Countries are listed in order of their democracy status scores. Arrows indicate a change in category relative to the BTI 2010, while dots indicate "failing states."

Table 1 shows that little has changed in the fundamental classification of Latin American countries. A slight increase in scores – including in the area of the state’s monopoly on the use of force – has brought Colombia, with an average score of 6.05 points, into the group of defective democracies. Haiti, by contrast, is now classified not merely as a failing state but also as an autocracy, after the earthquake and the fraudulent 2010 elections. This decline for Haiti also reflects the fact that the 2010 elections played a decisive role in the BTI 2012 survey results. While Michel Martelly did, ultimately, win a clear majority of the presidential vote in March 2011, this reasonably free and fair run-off election took place after the end of the survey period. Haiti’s current classification as a failing state reflects the state’s inability to assure its monopoly on the use of force, as well as the total collapse of its administrative structures. Furthermore, because the BTI autocracies category involves a cap on scores for effective governance and the stability of democratic institutions, Haiti has the second lowest score for political transformation in Latin America, with 3.67 points to Cuba’s 3.42.

Six additional states have undergone significant changes since the BTI’s 2010 edition, with negative trends clearly outweighing positive ones. Bolivia is the only state to register a noticeable improvement (+ 0.35 points). Here, political elites were able to avert an escalation of conflict that was threatening to split the country and to redirect the conflict of interests back into the proper, institutional channels. However, this was no more than a corrective to the drop in democratic quality that Bolivia suffered a few years earlier. Serious deficiencies in the rule of law and uncertainty about how latent conflicts will develop continue to be factors casting doubts over the development of democracy in the country.

The quality of democracy has declined over the period under review in the five remaining countries – Argentina (–0.35 points), Guatemala (–0.30), Mexico (–0.30), Ecuador (–0.20) and Panama (–0.20) – for various reasons and starting from very different situations. Essentially, two general patterns that are representative of Latin America as a whole can be observed driving the ups and downs that characterize defective democracies. In Argentina, Ecuador and Panama, the decline in the quality of democracy is largely due to the respective ruling presidents’ overweening pursuit of power and the resultant undermining of democratic institutions. Meanwhile, political developments in Guatemala and Mexico are eclipsed by deficiencies in stateness, which are linked to the extreme violence of the drug cartels and organized crime. In both cases, the process of state disintegration threatens to undo the gains in democratization achieved during the previous decade.

With the inclusion of Haiti, the group of autocracies in the region now numbers three states, although this should not be taken as indicative of a general authoritarian regression in Latin America as a whole. Haiti should, instead, be seen as a special case, standing as it does on the boundary between a failing state, a highly defective democracy and authoritarian regression. By way of illustration: in the 1990s, the country became a democracy under spectacular conditions, increasingly deteriorated into autocracy under President Aristide, then struggled back to (a highly defective) democracy after Aristide was deposed. Furthermore, even before the earthquake, the country was only able to survive with international help, while UN troops provided at least a

minimum of state monopoly on the use of force. There is as yet no sign of any rapid change under President Martelly.

In Venezuela, on the other hand, the authoritarian regime under President Chávez has become further entrenched. Venezuela is classified as an (electoral) autocracy;² in other words, although it enjoys what continue to be reasonably free and fair elections, the almost complete erosion of checks and balances mean that it is under de facto authoritarian rule, with continuous attacks on political and civil freedoms. In addition, the state monopoly on the use of force is increasingly under threat from the creation of pro-government militias that form a competing parallel structure. These developments seriously overshadow the future of democracy in Venezuela in the period following the next presidential elections in October 2012.

Finally, Cuba represents the last “classic” autocracy on the American continent. No democratization trends worthy of note were discernible during the period under review. In fact, under Raúl Castro, the regime has attempted to stabilize Cuba’s authoritarian system in the face of growing economic and social problems and to strengthen consensus among the Communist elites. Isolated easing of restrictions, such as the release (and exile) of political prisoners or permitting greater freedom of discussion in restricted forums, has had little impact so far on the overall picture. Nevertheless, economic reforms introduced in late 2010 show that a fundamental change has begun in Cuba under the more pragmatic government of Raúl Castro. That being said, the economic reforms are modeled primarily on the examples of states such as China and Vietnam, rather than on a comprehensive opening up of politics and the economy.

The group of democracies still numbers 18 countries, including ten defective and three highly defective democracies (see Table 1). Even if the coup in Honduras has raised concerns about possible knock-on effects and further authoritarian reaction elsewhere, political developments tend to suggest a degree of stabilization or stagnation. For some of the democracies, the primary threat appears to be less a recourse to force as a means of quelling domestic conflict than a further erosion of the state, the clearest example of which can be seen in Guatemala.

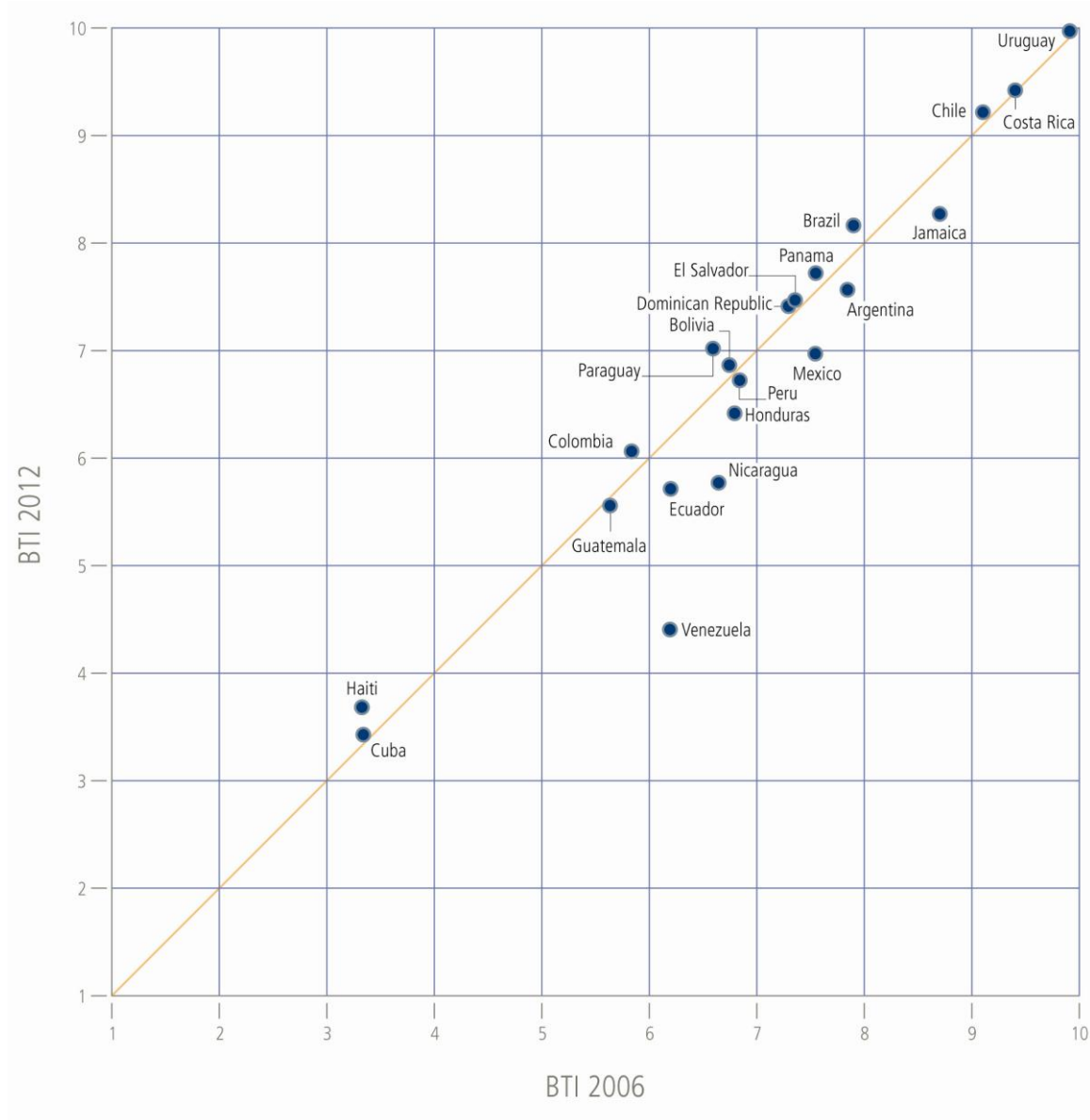
During the period under observation, twelve presidential elections and four parliamentary elections took place throughout the region; by and large, these were free and fair and proceeded without any major unrest. The relative normality of these elections is an indication of how firmly consolidated electoral democracy has become in Latin America. This is all the more noteworthy considering the fact that in countries such as Bolivia and Ecuador the respective presidents, Morales and Correa, are implementing controversial policies.

In four countries, the elections also resulted in a political turnaround, which was accepted without resistance by the political forces that were voted out of office – with the exception of Honduras. In El Salvador, President Funes heads the country’s first moderate left-wing government, whereas the elections in Chile and Panama resulted in a swing to the right.

² For the concept of “electoral autocracy,” see Schedler, Andreas (2006): *The Logic of Electoral Authoritarianism*. In: Schedler, Andreas (Ed.): *Electoral Authoritarianism. The Dynamics of Unfree Competition*. Boulder: Lynne Rienner, pages 1–23.

The greatest turmoil was undoubtedly experienced in Honduras in 2009. Here, the political elites – both the government and the opposition – had long been operating at the edges of constitutional legality, occasionally slipping over the line. The escalation of the political conflict was triggered by the sitting president, Zelaya, who attempted to interfere in the political process by dubious means. The then-opposition responded with maneuvers that, although constitutionally legal, were politically questionable. This development culminated in the coup against President Zelaya in July 2009: military forces summarily expelled the sitting president from the country. The transitional government responded to the subsequent unrest with highly repressive measures, and the situation did not calm down again until the scheduled elections were carried out as planned. The winner, President Lobo, is a member of the old elite who has since attempted to smooth out the antagonisms that were thrown up during the previous events. The subsequent return of deposed president Zelaya shows that President Lobo has managed, at least temporarily, to restore some measure of harmony. Nevertheless, there remain doubts about the commitment of the old political elites to the rule of law and democracy in Honduras.

Like Honduras, the majority of the region's countries remain defective democracies prone to fluctuating regimes, primarily due to the instability of the rule of law and the attitude of the political elites towards democratic institutions. A view of the medium-term development since the 2006 Transformation Index (see Figure 1) shows that – excluding a few significant exceptions – the individual democracies have essentially remained at the same level. In a (very) few cases, this indicates stability, but in the remainder it is a result of deadlock or stagnation. Accordingly, Uruguay, Costa Rica and Chile are stable democracies where democracy is substantively strong and is underscored by considerable support, even if Chile's political system, with its rigidly established party landscape, is not always representative. Brazil and Jamaica follow some way behind, closer to the group of defective democracies in many ways, particularly due to persistent problems with the rule of law. While Brazil has improved slightly thanks to some strengthening of the justice system and increased anti-corruption activity, Jamaica has suffered substantially in its democratic credibility. This is principally due to the growth of organized crime and the ensuing weakening of stateness and the rule of law.

Figure 1: Political transformation - BTI 2006 and BTI 2012

In contrast, the remaining 13 defective and highly defective democracies remain more or less in a state of suboptimal democratic development, also referred to as “low-level equilibrium.” These countries are dominated by stagnation, some have only modest democratic substance and in others there is creeping regression. Only Paraguay, under the governments of Duarte (to 2008) and Lugo, has shown an upward trend over time; this is mainly due to the more wholehearted approach to fighting corruption and the greater opportunities to participate in the political process under President Lugo. The absence of further progress, on the other hand, is attributable to a political constellation that is similar to that in other countries in the region: the Colorado Party that Lugo defeated at the ballot box had been in power for 61 years. It had even managed to win elections and remain in government for almost 20 years after the Stroessner dictatorship ended. Lugo is therefore

confronted with firmly entrenched elites in politics, society and in the apparatus of state that impede, water down or even block reform. This means that Paraguay could also fall into the “democracy trap” that has provoked populist and radical “solutions” in countries such as Venezuela or Ecuador: when reformist movements are prevented from successfully putting their plans into practice, they lose support and almost certainly future elections, which sounds the death knell for the reforms and leads to a re-establishment of the low-level equilibrium.

In the past decade, there have been various different attempts to remedy the dilemma of low-level equilibrium, marked by a weakness within formal institutions, an inclination to focus on short-term strategies and measures, and a tendency to frame politics as a zero-sum conflict. The most notable attempts to seek a way out of this dilemma were the radical reforms driven by populism as pioneered by Hugo Chávez in Venezuela and then later by Morales in Bolivia, Correa in Ecuador, Zelaya in Honduras and Ortega in Nicaragua. However, in striving to overcome deadlock, the reformers damaged political institutions in general and the rule of law in particular.

With the exception of Bolivia, where in the period under review for the BTI 2012 there has been a pronounced return to the official institutional channels as a means of solving conflicts, these countries have also suffered the most serious fall in the quality of democracy since 2006. The deep political divisions in these countries, which are exacerbated further by the actors concerned, make it unlikely that democratic institutions will stabilize in the foreseeable future. As the public arena is the principal stage for political clashes, freedom of the press is under considerable pressure.

Similar findings also apply to Argentina, where democratic advances commensurate with the state’s socioeconomic development were hindered by the conflicts between the different factions of the political elite. This means that necessary reforms, especially in the area of the rule of law, are either not attempted in the first place or are subsequently diluted or distorted. As such, politics since the end of the Alfonsín era in 1989 has remained focused less on institutions and more on personalities. Since the deep systemic crisis of 2001–2002, the Peronist governments of Néstor Kirchner (2003–2007) and Cristina Fernández de Kirchner (since 2007) have continued to promote this growing informalization of politics. The political strategies of both the government and opposition are primarily aimed at maintaining or undermining political power and – as in the countries mentioned above – at polarizing public opinion and reigning in or instrumentalizing the mass media. These trends have intensified sharply recently, as was particularly apparent in the elections of October 2011, when the continuation of the Kirchner era was on the line after the death of the de facto ruler Néstor Kirchner.

Mexico’s successive democratic losses since BTI 2006 are a case apart, particularly in the period under review for the BTI 2012. The rapid expansion of organized crime since President Calderón took office in 2006 increasingly threatens not just stateness but also civil rights and the rule of law. The sheer scale of violence and the state’s apparent impotence have, unsurprisingly, raised concerns that Mexico may already be a failing state. Given the divergent situation in the various federal states and the fact that government structures continue to function in areas such as economic and social policy, these fears may (still) be exaggerated; accordingly, the BTI Mexico

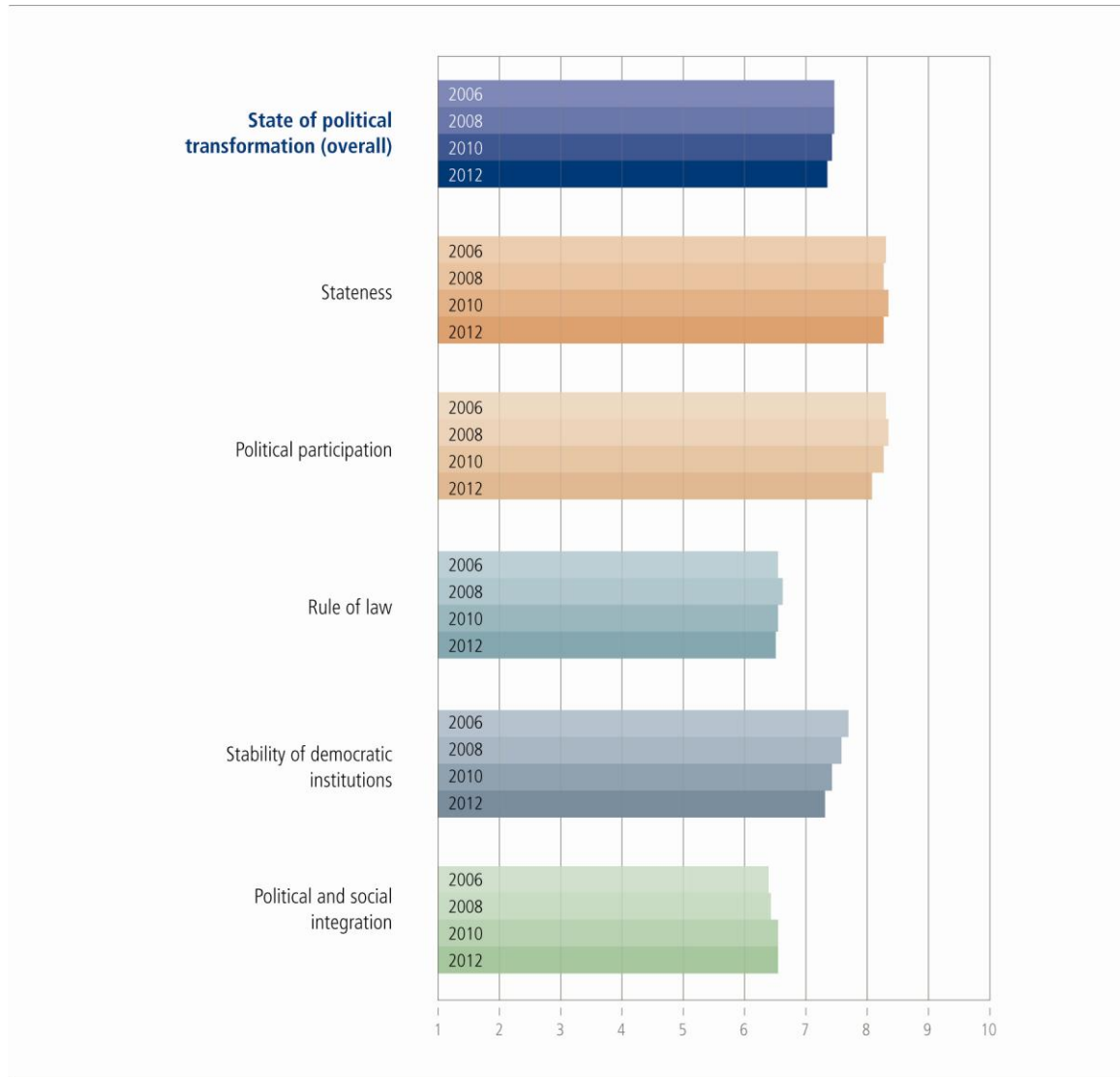
still considers Mexico to be a half-way functioning state. However, this discussion also obscures the fact that the quality of democracy in Mexico was already on shaky ground because of widespread corruption and clientelism.

This development can also be traced back to factors that apply in similar measure to other countries – especially in Central America, where decay like that seen in Mexico is already on the rise. In addition to the breeding ground for organized criminality created by the combination of poverty and social inequality, these factors include the specific course of democratization and, above all, the role of the state apparatus (which was already corrupt) in this process. The threatened destabilization of the system of public patronage, which has long upheld a comprehensive system of clientelism, has resulted in what might be called an increased feudalization of the state. This dynamic has promoted the development of “parallel worlds” that increasingly elude all state control and now compete with the state itself. This is even truer of Guatemala than of Mexico.

The negative trends outlined here are certainly worrying in some cases, especially Mexico and Central America, even if they tend to become lost among the more positive trends. Figure 2 shows the development trends for the core democratic components in the 18 Latin American democracies, together with their overall status over time. Apart from the minor overall change, the graph keenly illustrates the critical issues for Latin America’s democratic development.

The most important of these is the stagnation of the rule of law at a low level. Put simply, this means that political actors are unwilling to play by the constitutional rules. Accordingly, it is rather sobering to consider that reforms of the rule of law only succeed in those countries that already have a functioning rule of law. Secondly, this corresponds to a successive loss of institutional stability or, in other words: the commitment of the elites to democratic institutions. Finally, democracy’s political and cultural underpinning (political and social integration) also proves to be relatively weak: fragile party systems and interest groups, wavering public support for democracy and a generally weak civil society.

Figure 2: State of political transformation of the 18 democracies in Latin America, overall and by criteria



Economic transformation

Overall, Latin America has successfully weathered the global challenges posed by the financial crises in the industrial nations, continuing on its relatively stable course of development. The majority of the countries in Latin America were able to counteract the crisis with flexible economic policy measures and post significant growth in 2010. In the greater part of the countries, these successes are also based on reasonably solid basic economic institutions that, despite the

vulnerability of weaker states (especially those in Central America and the Caribbean), offer economic actors relatively dependable operating frameworks.

Although this development is strikingly positive when compared to earlier crises, it does not obscure the fact that Latin America continues to have fundamental structural problems. Foremost among these remains the high level of social inequality, which has not changed significantly in the period under review or, indeed, over the last decade. Instead, it seems to have become even further entrenched, permeating society right through to tax policy and social welfare structures, which generally appear regressive. Secondly, the ongoing boom in raw materials means that there is little incentive to alter the currently profitable growth model and realign it for greater value creation and productivity. This means that Latin America is at risk of falling even further behind Asia; only Brazil, which enjoys robust domestic demand as well as relatively advanced research and development policies, has been able to hold its own. Thirdly, in some states, development toward a market economy has been obstructed by a combination of weakness in the rule of law, corruption, and an informal sector that has been thoroughly penetrated by organized crime. Finally, although populist state interventionism – such as that pioneered by Hugo Chávez in Venezuela – has lost some of its appeal, it continues to find supporters looking for a political alternative, particularly given the deep social inequality and the distorted opinion and decision-making processes in the defective democracies. In addition to Argentina, Bolivia and Ecuador, developments in Peru are marked by this dilemma.

Admittedly, these structural problems are hidden by economic growth. Despite certain setbacks in 2009, apparent in the 1.9 percent fall in GDP on average for all the countries in Latin America and the Caribbean, the region posted significant growth again in 2010 (6.0 %). The strongest gains were in Paraguay (9.7 %), Uruguay (9.0 %), Peru (8.6 %), Argentina (8.4 %) and Brazil (7.7 %). Notable exceptions include Haiti since the earthquake (2010: –7.0 %), Venezuela (2009: –3.3 %, 2010: –1.6 %) and Jamaica (2009: –2.7 %, 2010: 0.0 %). There are also clear regional differences in the rates of recovery from the crisis: South American countries posted strong growth (Cono Sur and Andean Region: 6.6 %), whereas the economies in Central America (3.5 %) and the Caribbean (0.3 %), which are more closely oriented to the U.S. market, show conspicuously weaker recovery trends.

Correspondingly, the individual BTI scores for economic performance have changed little since BTI 2010: while Bolivia was the only country to improve, Haiti and six other countries recorded slight losses (Argentina, El Salvador, Jamaica, Colombia, Cuba and Venezuela). Furthermore, the average score for Latin America has been falling since BTI 2008, an indication that the region's structural problems are increasingly hindering economic growth.

The structural factors mentioned above – social inequality, a boom in exports, state weaknesses and economic policy strategies – combine with economic growth to create an overall picture that shifts between stability and stagnation. In line with this, the overall level of development of the market economy has hardly changed when measured as the average regional score (from 6.35 in the BTI 2010 to 6.27 points now). This slight downward trend is mainly due to the socioeconomic collapse

of Haiti (−0.75 points) and structural problems in Cuba (−0.57). Elsewhere, progress and setbacks in the region largely balance each other out, from a purely statistical perspective. This should be considered in the context of the fact that there were no major political upheavals during the period under review and therefore no significant changes to the political order. The only exceptions are Honduras (+0.32 points), where Lobo’s government corrected President Zelaya’s left-wing populist economic policies and brought the score back to its BTI 2008 level, and El Salvador, where the Funes government focused on building up a more comprehensive welfare regime. Otherwise, both the moderate and the more strongly populist left-wing governments have continued or entrenched their existing economic policies. As such, only a few countries exhibit striking changes: Peru (+0.39 points), Jamaica (−0.36) and Argentina (−0.25).

Table 2: State of economic transformation

Developed market economies Score 10 to 8	Functioning market economies Score < 8 to 7	Market economies with functional flaws Score < 7 to 5	Poorly functioning market economies Score < 5 to 3	Rudimentary market economies Score < 3
Uruguay	Brazil	Mexico	Cuba ▼	
Chile	Peru ▲	Colombia	Venezuela	
Costa Rica	Panama	Argentina	Haiti	
	El Salvador ▲	Jamaica		
		Dominican Republic		
		Paraguay		
		Bolivia		
		Honduras		
		Guatemala		
		Ecuador		

The table is derived from the BTI 2012 index data for the “economic transformation” dimension. Countries are listed in order of their market economy status scores. Arrows indicate a change in category relative to the BTI 2010.

Looking at the individual countries, it is clear that the state of economic transformation continues to vary strongly, which also reflects a certain inertia in institutional change or a blocking of reform. Experience has shown that this can only be overcome if there is substantial political consensus, as in Uruguay, or if windows of opportunity are seized, as was the case with the social programs in Brazil under Lula.³

³ Research into “historic institutionalism” refers to this “inertia” in institutional change and the limited capacity to shape institutions (see Thelen, Kathleen/Steinmo, Sven (1992): *Historical Institutionalism in Comparative Politics*. In: Steinmo, Sven et al. (Ed.): *Structuring Politics. Historical Institutionalism in Comparative Politics*. Cambridge: Cambridge University Press, pages 1–32). The possibilities and options for institutional reform are limited by the course set by earlier institutional decisions, referred to as “path-dependency,” and the associated power constellations. At certain critical junctures (such as external or internal crises), it is, nevertheless, possible to expand the scope for maneuver and open up a new development path, provided that the political elites are willing to use this window of opportunity.

The BTI criteria can be used to divide the countries into four groups. The group of developed market economies still only consists of three countries: Uruguay, Chile and Costa Rica. Uruguay has continued on its course of positive transformation in recent years and surpassed Chile as the top performer in Latin America. The moderate left-wing governments of President Tabaré Vázquez and his successor José Mujica have not simply benefited from favorable conditions; they have consistently focused on expanding the economic order and welfare regime and set new standards in the field of sustainability. Nevertheless, due to its small size, the dependence of its economy on its large neighbors Brazil and Argentina, its exposure to international markets, and a high rate of dollarization, Uruguay is still structurally vulnerable and always susceptible to external crises. Like Uruguay, Chile and – to a lesser extent – Costa Rica are robust on an institutional level, but neither was able to realize further gains during this survey period. In Chile, the most serious impediments to development are still severe inequality and deficiencies in the education sector, whereas in Costa Rica, it is institutional deficiencies linked to the continuing legacy of a strong public sector that hold the country back.

The group of countries with a functioning market economy includes Brazil, Peru, Panama and El Salvador, although of these four states, Brazil has almost joined the ranks of countries with a developed market economy. Over the years, Brazil has continued to advance in small steps on its upward path. It now has a stable economic order and it has tackled the issue of social discrepancies through targeted social policies. The country also benefits from a strong domestic market, which has resulted in the formation of a new middle class and has further reduced social inequality over the medium term. While Panama was not able to realize further progress, Peru and El Salvador advanced into this group in very different ways. In Peru, García's government rigorously continued along the course of macroeconomic stability and the development of a liberal market economy, although in doing so it neglected to provide any further social safety net. Although the considerable economic growth further reduced poverty and led to a marginally higher development status, it also exacerbated social inequality. Conversely, the Funes government in El Salvador managed to strengthen welfare elements, even if the economy was affected by the crisis due to its close ties to the U.S. economy.

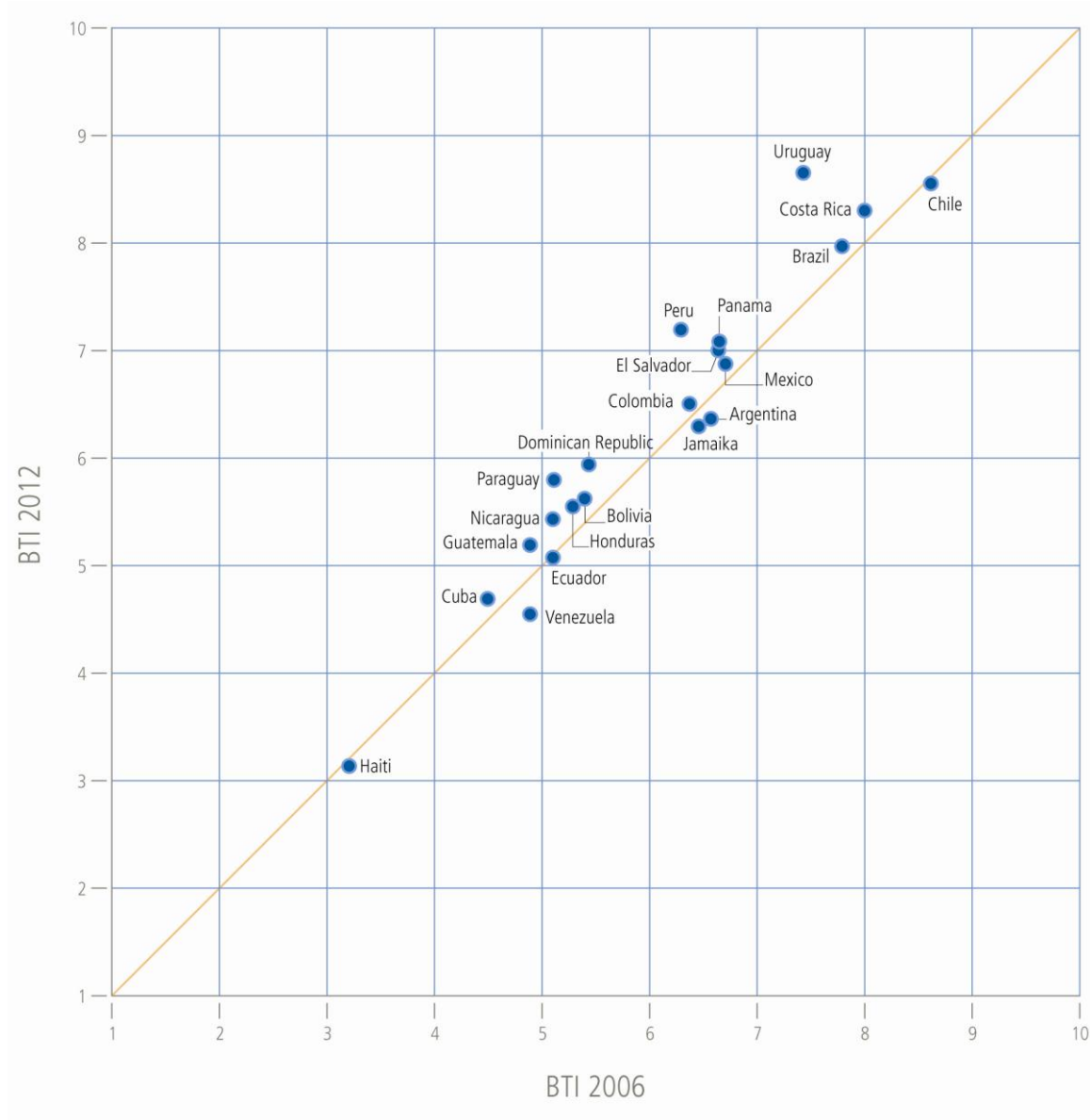
The majority of the countries in Latin American are in the third group of market economies with greater or lesser functional deficiencies. This includes eleven countries with very different political frameworks and institutions of varying quality. The group covers liberal market economies such as Colombia and Honduras, as well as countries like Ecuador and Bolivia, where the governments of Correa and Morales focus on a stronger role of the state and restrict the role of private property but who, in fact, operate a mixed economy due to the existing economic and power structures. In Guatemala, which can only offer an inadequate institutional framework to economic actors because of the weakness of the state, and Ecuador, where deficiencies in the economic order result in deficiencies in economic performance, the foundation of the market economy already appears precarious. It is worth noting that the stronger market economies in this group – Mexico, Colombia, Argentina and Jamaica – all suffered a decline in the functional operability of their market economies. Overall, the countries in this group are not able to implement economic development

that will benefit large sections of the population, nor are they able to guarantee stable conditions, with the exception of Mexico and Colombia. This has resulted in the expansion of the informal sector, which in some countries has been thoroughly penetrated by organized crime.

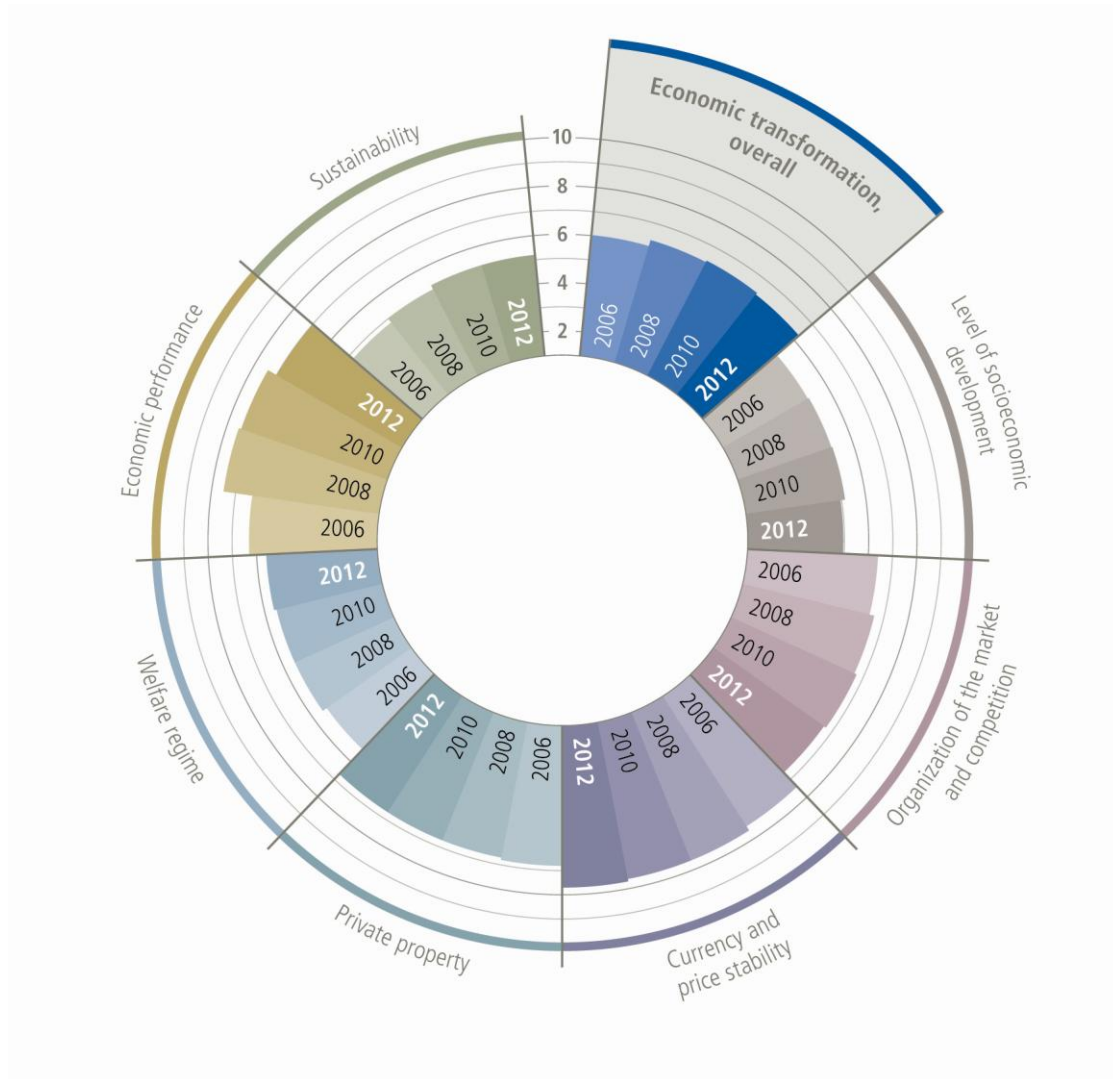
For varying reasons, Venezuela, Cuba and Haiti are the most poorly functioning economic systems in the region; the latter two, in particular, have suffered a major decline in the functional operability of their market economies during the period under review. In Venezuela, the continuation of state-centered economic policies put in place by the Chávez government has placed further pressure on the private economic sector, specifically aimed at further polarizing the nation's politics. Venezuela is also the only country to post negative growth rates, due in part to the falling price of oil in 2009 and 2010. Venezuela's fundamental dilemma is that, on the one hand, no government since 1958 has pursued policies aimed at making productive use of the state's substantial oil production profits and, on the other, neither this government nor the fragmented opposition is any exception.

In Cuba, the problems with state finances and the social system – which up until now was the country's biggest asset in the Transformation Index – have led to a downward trend that has already resulted in fundamental reforms of economic policy under Raúl Castro's government. Cuba was hit especially hard by the global financial crisis, which has proved to be the last straw for an already overburdened system, laying bare its structural weaknesses. Cuba's relegation can be attributed to the fact that its lavish welfare state has reached its limits and cannot continue in its present form. In September 2010, Raúl Castro's government enacted reforms that suggest the introduction of "market socialism" like in China and Vietnam. The first steps included announcing the dismissal of 500,000 civil servants, greater freedom for private enterprise in the agricultural and services sectors and the de facto authorization of small businesses in order to absorb the economic and social consequences of these far-reaching lay-offs. However, these initiatives are still at a very early stage.

Aside from the short-term trends influenced by crisis management in 2009 and 2010, a comparison with the BTI 2006 shows how the Latin American market economies have developed over the medium term. Apart from a few exceptions, this comparison shows (see Figure 3) that almost all the countries remain stuck in their established order, with a slight positive trend overall. Only in Venezuela is there a clear downward trend, and Uruguay, Peru and Paraguay all enjoyed a distinct upswing.

Figure 3: Economic transformation - BTI 2006 and BTI 2012

By way of contrast, Figure 4 shows the strengths and weaknesses of market economies in Latin America. Critical issues include stagnating socioeconomic development and – despite slight improvements – social welfare and the sustainability of the economic systems. On the other hand, positive features include a certain culture of stability that ensures relatively low rates of inflation and fairly sound national budgets in almost every country. Taking a long-term view, after the experiences of the debt crises and the “lost decade” of the 1980s, this is a remarkable achievement for Latin America.

Figure 4: State of economic transformation, overall and by criteria

Transformation management

On average transformation management in Latin America remains unchanged. With an almost unaltered average of 5.49 points, indicating mediocre management, the region remains in second place behind East Central and Southeast Europe (6.25 points) in terms of transformation management. In this comparison with other regions, it should be emphasized that the BTI awards points equally to transformation management toward a socially just market economy and to transformation management toward democracy under the rule of law; as such, the relative lack of autocracies in the region improves its overall score. Nonetheless the average score obscures the at-

times considerable changes at the national level compared with the BTI 2010. Significant improvements were observable in Bolivia (+0.50 points), El Salvador (+0.49), Honduras (+0.41), Costa Rica (+0.32) and Paraguay (+0.24).

Along with Haiti (−1.38), the main losers are Mexico (−0.36) and Argentina (−0.30) and, to a lesser extent, Chile. Chile, the top performer out of 128 countries in the BTI 2008, has since dropped to fifth place in management ranking and within Latin America has been overtaken by Brazil. It is also striking that Paraguay is trending very positively for the second time in a row, while Argentina remains fixed in a downward trend.

The quality of transformation management is as diverse as the political and economic transformation, ranging from “very good” to “failed” (or complete refusal: Venezuela) (see Table 3). The leading group still comprises Uruguay, Brazil and Chile. All three countries distinguish themselves with high marks in all four management criteria, indicating effective management of transformation processes, despite isolated weaknesses in the use of resources. In Uruguay, particularly, the governments of Vázquez and Mujica succeeded in improving the efficient use of resources (including anti-corruption measures). All three countries received maximum scores in the “international cooperation” category. Despite its slightly poorer management performance – which is not related to the change in government from Concertación to the right-leaning Coalición por el Cambio, but rather involves weaknesses throughout the political elite – Chile, along with Uruguay and Brazil, can still point to very good transformation management.

Table 3: Quality of transformation management

Very good	Good	Moderate	Weak	Failed or nonexistent
Score 10 to 7	Score < 7 to 5.6	Score < 5.6 to 4.3	Score < 4.3 to 3	Score < 3
Uruguay	Costa Rica	Mexico ▼	Cuba	Venezuela
Brazil	El Salvador	Honduras	Haiti ▼	
Chile	Paraguay	Colombia		
	Dominican Republic	Guatemala		
	Peru	Argentina		
	Jamaica	Bolivia		
	Panama	Nicaragua		
		Ecuador		

The table is derived from the BTI 2012 index data for the “transformation management” dimension. Countries are listed in order of their democracy status scores. Arrows indicate a change in category relative to the BTI 2010.

The second group includes countries whose management may be regarded as relatively successful in terms of stabilization and strengthening of democracy and a market economy, but which nonetheless exhibit significant weaknesses. Within this group with “good” transformation management there is little movement to report. It should be noted that Costa Rica (6.95 points) and

El Salvador (6.79) are closer to the top three performers than the rest of the group, led by Paraguay (6.21) – both countries remain the only other candidates for “very good” management.

In El Salvador, management under the center-left government of Funes has greatly improved on the political steering of previous conservative governments. Through its social policies, the government is not only making the appropriate mitigation of free market regulatory policy a top priority, but was also able to achieve a relatively solid consensus for this approach and so better incorporate civil society in policy development and implementation.

In Costa Rica, the governments under President Arias, and since 2010 under President Chinchilla stepped up the battle against corruption and – as part of the implementation of the free trade agreement between Central American and the United States – expanded international cooperation. In so doing, the government further solidified the country’s relatively high capacity for transformation.

The other countries in this group show significantly greater weaknesses, particularly in the area of effective use of resources and capacity for consensus building. With the exception of Paraguay these countries have barely progressed at all. There the Lugo government, despite challenges from the opposition, succeeded in better involving civil society and emphasizing the fight against corruption and state reform. Due to the country’s particular political conditions, especially the old elite’s capacity for blocking reform, it is uncertain if this improved management will endure.

In the third group are those countries defined by mediocre management. Without exception they include countries that have undergone major crises in recent history, the after-effects of which are still being felt, and in which there is a very high level of political conflict. This group includes Ecuador and Bolivia, two countries whose governments pursue goals, particularly economic goals, that are incompatible with the principles of a market economy. But Bolivia can point to a remarkable improvement in management performance. This is essentially due to specific learning processes on the part of the political elite as a whole and in particular results from the less polarizing political strategy that the Morales government has pursued following the introduction of the new constitution and its overwhelming electoral victory in 2009. This allowed it to move on from a phase marked by significant conflict and concentrate on the coordination and implementation of its policy objectives, including a greater willingness for international cooperation. Ecuador can point to no such learning processes, with President Correa still struggling to consolidate his development strategy and – in the face of an obstructive opposition – using similar tactics to those employed by Morales in previous years.

Along with Bolivia and El Salvador, Honduras is another clear winner in terms of management performance. This improvement can be solely accredited to the government that has been in power since 2010 under President Lobo, who has at least succeeded in returning calm to the political situation after acute polarization under President Zelaya, the consequent coup and controversial transitional government under Micheletti. However there is little cause for optimism: Lobo has merely corrected some of Zelaya’s misguided measures; there is no strong consensus for

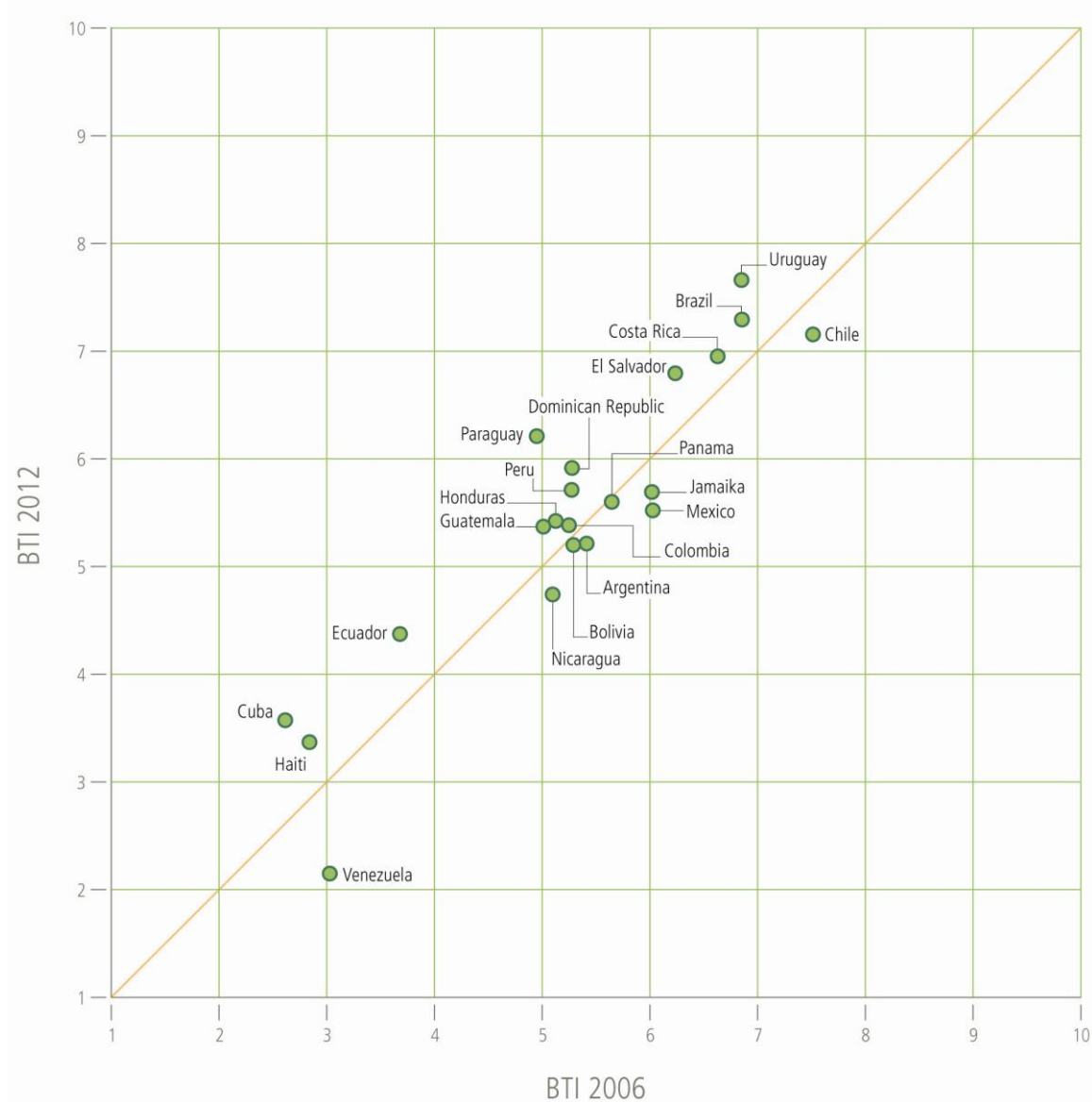
development of the country and there is still a lingering sense that the old elite might ignore the constitution if their interests are endangered.

Apart from Haiti, Mexico and Argentina exhibited the greatest drop in management performance. In Mexico the Calderón government is not even close to controlling escalating violence arising from its policy of militarizing the conflict. This policy failure is accompanied by a lack of control over antidemocratic forces and further undermines the country's international credibility.

In Argentina, which saw significantly improved management following the crisis of 2001–2002, particularly under the government of Néstor Kirchner, is now experiencing a decline in management under his wife Cristina Fernández de Kirchner. This is paradoxically linked to the fact that until his death in November 2010, Néstor Kirchner continued to represent the center of political power and so contributed to the informalization of politics, ultimately concerned with the retention and exercise of power by all available means. Non-transparent administration and consequent inefficiency in resource usage, as well as a lack of consensus among the elite about appropriate reforms to strengthen institutions, all affect Argentina's management scores. Arriving with a promise to strengthen the country's democratic institutions, Cristina Fernández de Kirchner has definitively failed to achieve this goal. On the contrary, the political elite in both government and opposition exploit these institutions for their own ends – a trend that intensified in the run-up to the October 2011 presidential elections.

Apart from Haiti, which has effectively had no political management since the earthquake, Cuba and Venezuela remain the poorest-performing Latin American countries in management ranking. Nonetheless the trend towards pragmatism that followed Raúl Castro's takeover of government responsibilities has further intensified. The reform of the economy that began in 2010 points to clearer strategic priorities and a more thorough strategy of policy implementation. On the international level, too, Cuba is pursuing a more pragmatic approach, increasingly aligning itself with China and so complementing its close relations with Venezuela. Venezuela, on the other hand, remains in last position due to the Chávez government's policies, which run counter to the democratic rule of law and the market economy.

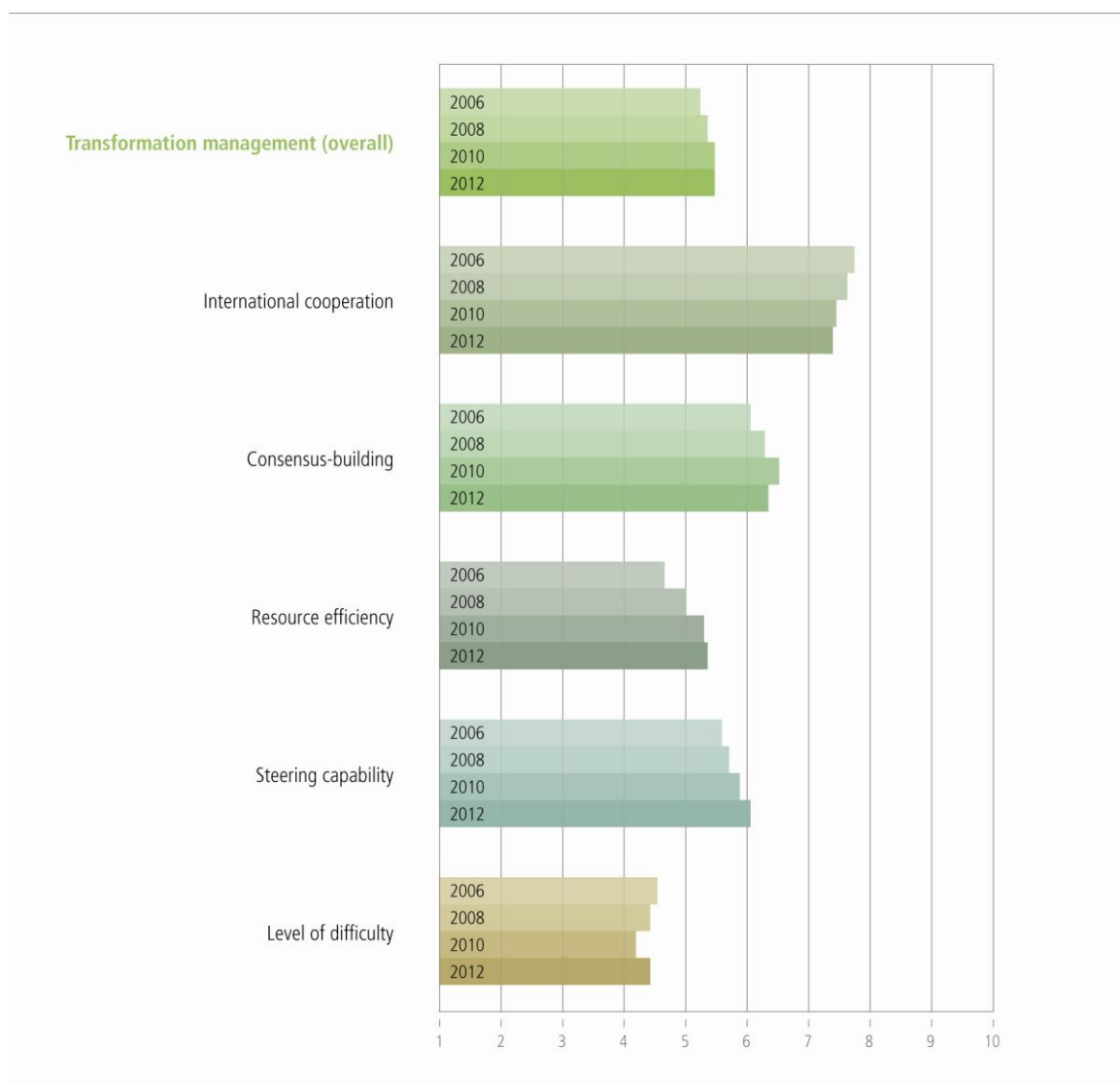
The changes and trends of recent years are even more apparent in comparison with the results from the BTI 2006. It should first be noted that there is more movement to be seen in the quality of transformation management than in political and economic transformation (see Table 5). Uruguay and Venezuela may continue to represent the top and bottom of the group, but Paraguay is the winner over time, while Peru, El Salvador, Cuba and Ecuador can all point to significantly improved management. With Ecuador and Cuba, especially, it should be emphasized that in BTI's conception, management is overwhelmingly oriented towards normative goals. Both countries continue to score poorly, but a change in trend emerges over the years.

Figure 5: State of transformation management - BTI 2006 and BTI 2012

Finally Figure 6 shows that the slight upward trend in transformation management since the BTI 2006 has now slowed down considerably. However, the individual management profiles show differing trends. While steering capacity and use of resources have strengthened somewhat, international cooperation has dropped to a similar extent. Behind this drop are, on the one hand, changing frameworks for international cooperation in the more left-wing populist countries such as Venezuela, Nicaragua and Bolivia, on the other hand strategic deficits and loss in credibility, particularly in Mexico and Jamaica. However a trend reversal is apparent in consensus-building, which is scored lower for the first time in the BTI 2012. This score is not simply due to the polarized conflict situations prevalent in some countries as already outlined, but can also be traced

to the increased difficulty in integrating antidemocratic forces. Only in one country does this concern the military (Honduras); elsewhere, organized crime now represents the greater problem.

Figure 6: State of transformation management, overall and by criteria

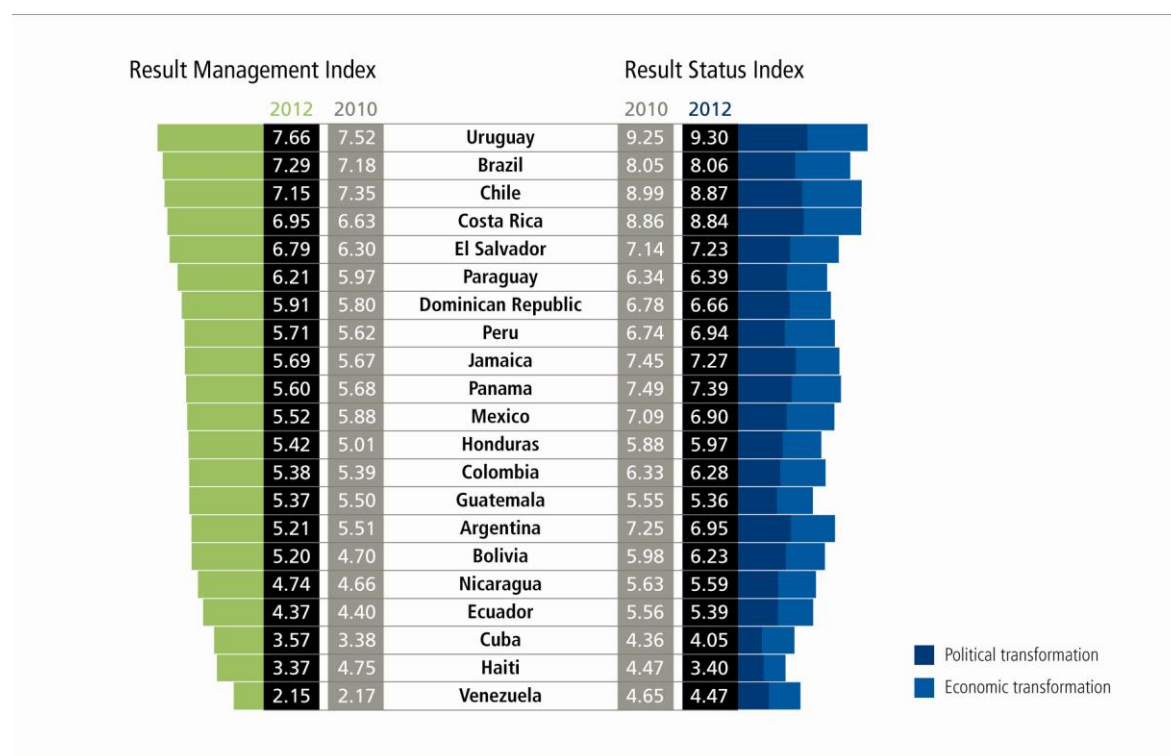


Outlook

As in past survey periods, Latin America's transformation performance record in the BTI 2012 remains mixed. From a historical perspective, it is worth acknowledging that the region appears to have largely proved successful in turning its back on autocracy in the past 20 years. Moreover, the majority of states in the region have abandoned the problematic economic and social policies of the twentieth century that resulted in crises of inflation and debt, and instead are striving to achieve stable market economies. Nevertheless, it is manifestly evident that, apart from a few exceptions, the pace of transformation appears to have flagged in recent years. If we look past the "usual suspects," Uruguay, Chile and Costa Rica, as well as up-and-coming Brazil, democracy and the market economy rest on somewhat weak foundations in most of the region's countries, with no decisive or lasting reform on the table. Until they have proven sustainable, the positive examples outlined above, such as El Salvador or Paraguay, will do little to alter this impression.

Of course, we must also take into account what kind of transformation progress may be achievable in a given national context and how quickly this can take place. For example, the functioning democracies of Uruguay, Chile and Costa Rica have demonstrated that societies with well-functioning institutions can successfully propose, negotiate and implement important reforms. The remaining countries, and especially the defective democracies, have shown that the underlying conflicts threaten to overwhelm weak institutions and provoke distrust and short-sighted policies. The weak rule of law in these states remains the biggest obstacle to further transformation. This weakness is expressed in the lack of adherence to universally applicable laws which are superseded by rules in favor of personal relationships or an informal system of rules. Reforming the rule of law would require political actors to possess a basic level of mutual trust – but this trust is virtually impossible when the rule of law is not assured. This paradox is clearly illustrated by Argentina's repeated failure to enact reforms in the rule of law.

One cause for optimism is the fact that, despite the overall stagnation of transformation management performance in the region, a few states have managed to achieve notable success. The sustainability of these successes will depend largely upon whether reforms are accompanied by a process of learning among social and political elites. In this respect, Latin America's overall success in weathering the economic turbulence of the global economic crisis might be regarded as an indication that, in comparison to earlier periods, Latin America has taken a step forward here.



Contents

BTI 2012 | Regional Findings: Latin America and the Caribbean

Country Reports:

Argentina

Bolivia

Brazil

Chile

Colombia

Costa Rica

Cuba

Dominican Republic

Ecuador

El Salvador

Guatemala

Haiti

Honduras

Jamaica

Mexico

Nicaragua

Panama

Paraguay

Peru

Uruguay

Venezuela

BTI 2012 | Argentina Country Report

Status Index	1-10	6.95	# 33 of 128	
Political Transformation	1-10	7.55	# 31 of 128	➔
Economic Transformation	1-10	6.36	# 44 of 128	➔
Management Index	1-10	5.21	# 60 of 128	

scale: 1 (lowest) to 10 (highest)

score

rank

trend

Key Indicators

Population	mn.	40.4	HDI	0.797	GDP p.c.	\$	16012
Pop. growth ¹	% p.a.	0.9	HDI rank of 187	45	Gini Index		45.8
Life expectancy	years	75	UN Education Index	0.806	Poverty ³	%	2.4
Urban population	%	92.4	Gender inequality ²	0.372	Aid per capita	\$	3.2

Sources: The World Bank, World Development Indicators 2011 | UNDP, Human Development Report 2011. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$2 a day.

Executive Summary

Near the end of President Cristina Kirchner's (first) term in office, Argentina's transformation to constitutional democracy and a sound market economy with social safeguards remains stuck, due to the ongoing zero-sum games of political elites who appear to be incapable of pursuing needed reforms. Although politicians respect the basic rules of electoral democracy, the rule of law and the institutional foundations of the economic system remain weak, and politics remain centered on persons rather than on institutions. In this context, the sudden death of ex-president Néstor Kirchner – the husband and political alter ego of incumbent President Cristina Kirchner, and a presumed candidate for the 2011 presidential elections – marked an important caesura in the political process. Néstor Kirchner was still at the center of Argentina's government circles and had maintained control over both the power-sustaining networks around the Peronist party and basic economic policies. The typical power struggles rapidly surfaced soon after his death. In sum, Argentina's political elite itself remains a persistent risk for political and economic transformation, and they do not seem to have learned much from the profound crisis of 2001–2002.

Consequently, there has been no progress, and perhaps even some regression, in the matter of political transformation. The political strategies of both the government and the opposition mainly centered on maintaining or subverting political power and to embrace other social actors and the public, leading to a climate of irreconcilable conflict. In addition, power politics favored the rise of dubious actors, such as the most important union, CGT, and its leader, Hugo Moyano, who engage in their own political and economic power strategies, sometimes with non-democratic and mafia-like measures. With regard to economic transformation, the weakness of market economy institutions stands in sharp contrast with successes in socioeconomic performance. Like most Latin American countries, Argentina was only slightly affected by the global crisis and benefited from persistent demand for its natural resources. Nonetheless, there are notable tensions stemming from the implementation of a macroeconomic model that is based

on a high exchange rate and commercial and fiscal surpluses. There is no consensus on the developmental model and on strategies for its implementation. The economic recovery has little basis in structural foundations and is still too dependent on volatile internal and external factors. The reliance on a resource-based export model runs the risk of resulting in deadlock. It therefore remains an open question as to whether Argentina's democracy and market economy are headed down the path of sustained development.

History and Characteristics of Transformation

Chronic instability has been a key feature of twentieth-century Argentine history. Frequent changes in the system of government, irregular regime changes and crises within the dominant power cartels have impeded both development and the implementation of coherent policies. This political development culminated in a fierce military dictatorship between 1976 and 1983. When President Alfonsín from the Radical Civic Union (Unión Cívica Radical, UCR) started his six-year term in 1983, Argentina finally seemed poised to enter a phase of political stability; however, turmoil soon broke out, leading to 13 general strikes and four army rebellions in just three years. After the failure of the Austral Plan in 1986 and the 1987 parliamentary election defeat, an escalating economic and political crisis evolved in the first half of 1989 that was marked by hyperinflation and political stalemate. This crisis forced Alfonsín to cede his office to his rival from the Peronists (Partido Justicialista, PJ), Carlos Menem, six months before the end of his regular term.

In the early 1990s, President Menem succeeded in restoring growth to the Argentine economy and winning the favor of the nation's bourgeoisie as well as international creditors and investors. They did so by establishing peso-dollar parity through the 1991 Convertibility Law and by steadfastly pursuing a neoliberal stabilization policy. Menem's economic policy successes secured him a majority in Congress in 1993 and – after the 1994 Constitutional Reform, which allowed for his re-election – a second term in office (1995-99). From 1990 to 1994, Argentina's overall growth rate averaged about 7.7% per year. However, financial crises in Mexico, Asia and Russia, and devaluation in Brazil, caused Argentina to slip into a recession in 1999. As a result of these developments, a Peronist government was voted out of office for the first time in Argentina's history in the presidential, congressional and gubernatorial elections of 1999.

With the election of the center-left alliance under the leadership of the Radical Party's Fernando de la Rúa, an impending crisis of representation appeared to have been at least temporarily averted. However, a Peronist majority in the Senate and among provincial governors left the coalition government prisoner to what had become the Peronist opposition. The government failed to present a clear policy agenda to put the economy back on track, to find solutions to the nation's grave social problems or to initiate a consistent anti-corruption policy. The crisis

escalated, and De la Rúa was forced to resign in the midst of a rapidly deteriorating economic, political and social situation. A wave of protests and violence brought the nation to the brink of chaos.

On 1 January 2002, Congress elected Peronist Senator Eduardo Duhalde as Argentina's third president in less than two weeks. Confronted with a massive civil rebellion, the new government's first move was to end the monetary convertibility system. Within a few weeks, the peso lost more than 70% of its value, triggering fears of hyperinflation. The economy fell into a full-scale recession, the banking system collapsed and economic activity ground to a halt. At the same time, democratic institutions were near the breaking point, and hostility toward the political elite and social protests grew to such proportions that there was talk of military intervention. After police killed two protesters in June 2002, a badly weakened Duhalde was forced to cut short his own mandate. Finally, presidential balloting was rescheduled for 27 April 2003. In the first round of elections, Menem won 24.5% and Kirchner 22.4%. The oppositional Unión Cívica Radical (UCR) suffered a devastating defeat. Menem dropped out of the second round, handing the presidency by default to Kirchner. By winning the mid-term congressional elections of 2005, Kirchner strengthened his political position and thus capitalized on several successes, including a strong economic recovery, a reform of the justice system, a successful debt arrangement with foreign investors and his efforts to address the human rights violations perpetrated under the former military dictatorship. Although Kirchner enjoyed approval rates of over 60%, he announced in July 2007 that he will not seek re-election; instead, he backed his wife, Cristina Kirchner, who won the presidential elections in October 2007, thereby becoming the first elected female president in Argentina.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 10 (best) to 1 (worst).

Transformation Status

I. Political Transformation

1 | Stateness

Question
Score

The state's monopoly on the use of force prevails throughout the country and is not seriously disputed by functional organizations. The military does not infringe upon the civilian use of force. Federalism and so-called new security challenges sometimes restrict the state's monopoly on the use of force. In the poorer provinces, shortages in funding and personnel have limited the state's ability to act effectively. Currently, increasing incidences of violent crime and the emergence of private security services threaten to erode or even overwhelm the state's monopoly on the use of force in urban centers. The deterioration of public security, mainly in the urban centers, has been one of the most disturbing phenomena since the crisis of 2001-02 and a key issue in all elections on the national level since the end of the twentieth century.

Monopoly on the
use of force

8

Relevant groups in society do not challenge the definition of citizenship, the legitimacy of the nation-state or the validity of the state's constitution. There are some exceptions, such as the alarming growth of anti-Semitic incidents and the dissemination of racist literature. Argentina's Jewish community, the largest in Latin America, is a frequent target of anti-Semitic discrimination and vandalism. The civil rights of indigenous people, including the Mapuche in the south and the Tobas and Kolas in the north, are also an issue. Seventy percent of the country's rural indigenous communities lack a title to their lands. However, Kirchner has returned land to several communities. Indigenous communities have been prevented from exercising their right to free, prior and informed consent in projects involving the exploitation of national resources on indigenous land. On the other hand, public awareness of this problem is very limited. Only 3% of citizens are convinced that the indigenous suffer the most from discrimination.

State identity

10

The constitution guarantees freedom of religion. Church and state are separated, and the political process is secularized. However, the Catholic Church is subsidized by the state and has authority in important issues. But the political influence of the Church has diminished under the Kirchner governments. Néstor Kirchner and the Catholic Church clashed on the issues of abortion, sexual education, human rights violations and poverty. Cristina Kirchner banished a British Catholic bishop from the country because he denied the existence of the Holocaust and engaged in anti-Semitic discourse.

No interference of
religious dogmas
10

The state's fundamental infrastructure extends to the entire territory of the country, but it operates somewhat deficiently. The political administrative network and political parties administer public funds, but the distribution follows particularistic, clientelistic and non-transparent criteria. The weakness of the state and its institutions is especially apparent in its inability to prevent rampant tax evasion, which is one of the population's responses to the *corralito* (freezing of bank accounts in 2001). The northern provinces are still burdened with longstanding difficulties. These nine provinces house 20.8% of the population. In 2004, more than 60% of the population in these provinces were living below the poverty line, compared with 44% in the country as a whole. There are no federal policies to promote development in depressed regions, and there are very few employment opportunities outside of the public sector.

Basic
administration
8

2 | Political Participation

General elections are mostly free and fair, and they are accepted in principle as the means of filling leadership positions. Universal suffrage and the right to campaign for office exist. Elections are administered correctly. However, an independent jurisdiction of elections has not existed until recently, and the distribution of public funds is asymmetric in favor of the ruling party coalition. The government also uses the media for short-term electoral interests. With a few exceptions, especially at the provincial level, governments respect the rules that govern open and competitive elections. Some isolated attempts to manipulate elections were cleared up and/or at least morally sanctioned. According to *Latinobarómetro* 2008, 63% of Argentines interviewed were convinced that their votes have a genuine impact, whereas this was true for an average of only 59% Latin Americans as a whole. In 2010, this figure dropped to only 49%, four points under the average for the region, which is a clear sign of a crisis of representation.

Free and fair
elections
9

During Cristina Kirchner's presidency, representatives had sufficient authority to govern, but the influence of actors with veto power increased. The power of the *Confederación General del Trabajo* (CGT), traditionally the strongest labor organization, increased considerably during the last years. Its political weight under the leadership of its Secretary General, Hugo Moyano, president of the powerful

Effective power to
govern
8

syndicate for transportation, is reflected in Moyano's defiant political declarations and in his rise to the presidency of the Peronist Party in the province of Buenos Aires. Relations between the government and Argentina's entrepreneurs have improved with the recovery of the economy, but remain laden with conflict. Moreover, Néstor and Cristina Kirchner's strategy of growth through domestic industry has changed the relationship between state and business and made the government vulnerable to pressures from domestic business. The conflict with the agrarian sector in recent years is a very good example for the growing veto power of a well-organized social actor.

The military is no longer a veto power in political affairs; their role has been reduced substantially since the first years of the Kirchner government. In August 2008, the Senate voted unanimously to scrap the military justice system, meaning that military personnel and civilians will now be equal before the law. Military criminals have been subsumed into the standard criminal code, and a military criminal procedure for times of war was created. Cristina Kirchner, following the human rights policy of her predecessor, Néstor Kirchner, made significant progress in prosecuting military personnel and police who were responsible for "disappearances," killings and torture during the country's "dirty war."

Citizens are free to establish political and civic organizations. These rights are generally respected. Civic organizations are robust and play a significant role in society, although some fall victim to Argentina's endemic corruption. Labor organizations are dominated by Peronist unions. Union influence, strongly debilitated during the neoliberal Menem era by corruption scandals and internal divisions, gained negotiating power with the economic recovery and the more flexible government style of Cristina Kirchner. Beyond the established forms of interest group articulation, there was an emergence of basic organizations, self-help groups and other forms of self-articulation and protest. In a variety of issues, NGOs play an important role in monitoring and influencing government policy. They are generally free from legal restrictions and political pressure from the state. Their influence on the legislative process is, however, modest because of the absence of a legislative agenda and information regarding committee meetings.

Freedom of information and freedom of speech are generally safeguarded. However, effective access and monopoly controls are absent, particularly in television, which is dominated by a few companies. Argentina is one of South America's leading media markets. The country has well over 150 newspapers, hundreds of commercial radio stations, dozens of TV stations and one of the world's highest penetration rates for cable TV. Over time, the industry has consolidated and large conglomerates have emerged. Public broadcasting has not played a major role in the development of radio and TV.

Association /
assembly rights
10

Freedom of
expression
8

Since the return to democracy in 1983, the media has established itself as both a stage for and a principal actor in politics. Journalists have generally been able to carry out their work freely. But since the Menem presidency, government influence over the media has grown. The relationship between Néstor Kirchner and the conservative sector of the press, including the newspaper “La Nación,” deteriorated. During Cristina Kirchner’s presidency, this hostility turned also to El Clarín, which in previous years had been considered a near-official organ of the government. Some journalists working for the independent media have received threats. Néstor and Cristina Kirchner have characterized critical media and journalists as political opponents. Executive officials call journalists to complain about critical coverage, and they block access to official sources and events as punishment. Defamation of public officials remains a criminal offense. Although the Inter-American Court of Human Rights ordered the government in May 2008 to modify its defamation laws, none of the various bills meant to decriminalize defamation passed the Congress.

In September 2010, the government filed a criminal complaint charging the owner and president of the newspaper Clarín, the director of La Nación, and the former owners of La Razón with crimes against humanity. The complaint alleged that the three newspapers illegally appropriated the newsprint company Papel Prensa in 1976, during the military dictatorship. Clarín and La Nación insisted that the acquisition of the shares was legal and accused the government of attacking the papers because of their criticism of President Cristina Kirchner. Businessmen who consider contributing funds to opponents find that their taxes are suddenly subject to an audit. Government officials are still accused of verbally mistreating independent journalists, and provincial governments continue to manipulate official advertising to favor media outlets they consider friendly. Media rights watchdog Reporters Without Borders says journalists in the provinces risk being “hounded” by the police and courts.

A bill to regulate the broadcast media, approved by Congress in October 2009, aims to promote diversity by limiting the ability of corporations to own large portions of the radio frequency spectrum. In October 2010, commissions in the Chamber of Deputies approved draft legislation presented by President Kirchner to regulate the company that produces and distributes paper for newsprint in Argentina. In the same year, both chambers of Congress debated bills to ensure public access to information held by state bodies. The absence of transparent criteria for allocating government advertising contracts, both at the federal level and in some provinces, creates a risk of political discrimination against media outlets that criticize government officials. Freedom of cultural expression and academic freedom are generally unrestricted, and the state does not hinder free access to the Internet.

3 | Rule of Law

During the 1990s, the balance of power between the three branches of government clearly shifted in favor of the executive, resulting in “presidential hegemony.” Presidential unilateralism and discretion have increased substantially. The judiciary has become increasingly politicized and governance by decree has become a common practice. Néstor Kirchner’s autocratic style of government has not changed under Cristina Kirchner’s presidency. The structural problems of divided government are exacerbated by a winner-take-all political culture among the parties and the fact that political obstructionism rather than cooperation pays dividends. The use of executive decree powers has marginalized the role of the Congress in formulating, scrutinizing and passing legislation, and it undermines trust between the executive and the legislature. After the government lost its majority in the 2009 mid-term elections, the ruling coalition could not pass its budget for the fiscal year 2011 in 2010. However, the president has access to huge amounts of off-budget money that is used to build the president’s own political machine. This is more disturbing in a country where democratic institutions are fragile and where corruption, cronyism and patronage have been the principal tools of government. Finally, the tendency toward hyper-presidentialism was reinforced by a governance style that has eschewed dialogue and consensus in favor of confrontation and diktat.

Despite the concentration of power in the executive branch, the president is constrained by province governors, the real power nodes of the Argentine political system, civic organizations and the media as agents of “societal accountability,” and, last but not least, by a growing opposition inside and outside the Peronist party. However, some patterns of institutional manipulation continued under the Kirchners’ presidencies. Examples include the reform of the Magistrates Council, the 2006 “superpowers” law that granted the president vast discretionary authority over the budget, the elimination of open primaries to nominate presidential candidates (a law established in 2002) and the government’s assault on the once-independent statistical agency INDEC. In some areas, the Kirchners respected the letter of the law while violating its spirit. Thus, although Congress’ impeachment or threatened impeachment of six out of nine Supreme Court justices was legal, it reinforced the pattern of executive encroachment that has existed since the 1940s. More problematic was the Kirchner team’s intentions to extend its stay in the presidency beyond two terms, modifying the constitution to permit Néstor a third term, a strategy that met widespread societal opposition and failed in the end. The legislative and judicial branches’ key weakness is their consent to the strength of the executive branch. The Argentine Congress has few experienced leaders,

Separation of
powers

5

virtually no professional staff and little technical expertise, and its committee system and oversight bodies are poorly developed. Few politicians have invested seriously in legislative careers.

Argentina's judiciary is generally independent, but remains subject to strong influence from political authorities and plagued by corruption. It is institutionally differentiated, but partially restricted by insufficient functional operability. These problems are still more severe at the provincial level. One of the main issues in Cristina Kirchner's inaugural address was sweeping judicial reforms, including the popular gesture of making judges pay taxes, to restore the public's faith in the judiciary and to "reconstruct the value of security in the face of some incomprehensible judicial rulings." However, the gap remains wide between expectations and real rule of law.

Independent
judiciary

6

The weakness of the rule of law is combined with a system of privileges that violate the principle of equality. The judicial system also lacks transparency, efficiency and neutrality. Aside from changes in the Supreme Court and the Consejo de la Magistratura, which is responsible for the appointment and removal of judges, few of the promised reform projects have been realized. The growing differences between executive and judicial power with regard to budget autonomy, judicial independence, and the controversial and slow appointment of judges are all clear signs of Cristina Kirchner's resistance to establishing institutional checks and balances. The reform of the justice system as a whole will require long-term commitment and sustained effort. Public confidence in Argentine jurisprudence remains low; 54% of Argentines are convinced that it is possible to bribe a judge, and only 18% think that equality before the law is guaranteed.

Corruption continues to pervade public institutions. The country has strong anti-corruption regulation and two administrative organizations that work outside the auspices of the Justice Ministry, but all of this is offset by uneven enforcement and a weak judiciary. Statistics from the Center for the Investigation and Prevention of Economic Crime have shown that, in the last 25 years, the average length of processing required in prosecuting corruption cases stands at 14 years. Leading anti-corruption activists have accused the administration of stalling on its good governance agenda, particularly by failing to ensure effective functioning of administrative controls. The government's concentration of power encourages corruption as it obstructs administrative control and demands a steady distribution of benefits to the political class, in order to mollify those who would otherwise protest that concentration. This damages Argentina's federal regime through patronage via distribution of the national budget to governors and mayors so that they line up behind the Kirchner government.

Prosecution of
office abuse

5

Political parties, legislators, the police and the judicial system are perceived as the most corrupt institutions; 40% of Argentines are convinced that corruption is the

most important problem preventing the police from successfully fighting crime (Latinobarómetro 2010). Abuse of office by elected officials usually goes unpunished. Nepotism in the provinces, the eternal temptation of the governors, is still endemic. The obstacles that prevent the efficient prosecution of corruption are not moral or legal, but are rather a set of informal practices that discourage, preclude or frustrate an effective investigation. Illegal campaign financing and money laundering are crimes that go unpunished in Argentina. The Unit of Financial Information (UIF – Unidad de Información Financiera), created at the beginning of 2006, hasn't managed a single conviction of money laundering in the four years since its foundation, despite 64 accusations presented to the Ministry of Justice.

Civil rights and liberties exist and are guaranteed, but since both the police and the judiciary are politicized, corrupt, poorly paid and inefficient, legal action against violations is usually inadequate. The excessive use of force by police and other security forces has been reported as a recurring problem. The situation in jails is also problematic due to severe overcrowding and the poor quality of basic services. In addition, torture continues to be a serious issue in prison and detention centers. Excessive use of police force against public demonstrators and the arbitrary arrest of citizens have also been common in the recent past, reaching a peak in the turmoil of December 2001. The Argentine military and police are resistant to government enforcement of human rights. The national and provincial governments have failed to change the prevalent culture in the security forces.

Civil rights

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Another issue of primary concern for Argentines is public security, especially in Buenos Aires. In the aftermath of the 2001-2002 crisis, the level of violent crime, as well as the public perception that crime was a problem, increased markedly. Much of the increase has been fuelled by a growth in illegal drug use and by the complicity of high-ranking judicial and law enforcement authorities in the drug trade. Moreover, governments repeatedly failed to reform police forces that were known to be corrupt and complicit in criminal activity. According to Latinobarómetro 2010, worsening public safety and crime rates are problems of the first rank in Argentine perception (37%, compared to economic problems: 35%; average in Latin America: 27%). Only 10% state that the country is secure. Balancing public demands for security with the commitment to civil and human rights is also a challenge for Cristina Kirchner. Failure on the public security front could fuel the rise of law-and-order populism, which could place many hard-won civil liberties at risk.

Citizens whose rights are violated by the state can contact their national or local ombudsman, or take their cases to court with a public or private lawyer. In practice, however, access to these options is limited, especially for low-income and other socially marginalized people. The government has no clear policy for addressing this problem, leaving the task mainly to NGOs. The role of the ombudsman in

assuring citizens' right is very limited. Although the police are not effective and are highly corrupt, 55% of Argentine citizens are convinced that increasing the number of policemen is the best way to increase safety and reduce violence (Latinobarómetro 2010).

4 | Stability of Democratic Institutions

Democratic institutions, including the administrative system and the judiciary, have recovered step by step from the 2001-02 crisis. However, their effective functioning is not sufficiently guaranteed and their interrelationships are not entirely smooth. Both Néstor and Cristina Kirchner's presidencies are characterized by a significant concentration of executive power. Since the government lost its majority in Congress after the mid-term elections in June 2009, the political landscape has become more diffuse. The highly fragmented opposition, lacking both negative and positive agenda controls, is left in a very reactive position. The system of formal and informal incentives ensures that obstruction of the government is more profitable for the opposition than cooperation. The electoral system has the same effect. The rebirth of provincial power, linked with the weakening of the party system, has produced a redistribution of political power, with considerable consequences for governance. The "localization" and decentralization of politics has emerged without the parallel development of a solid party system on the national level and institutional mechanisms that typically constitute a countervailing power to these centrifugal tendencies.

The relevant actors accept democratic institutions as legitimate, but do not always actively support them. Notwithstanding the concentration of power and the PJ's electoral dominance, the core institutions of Argentine democracy remain strong. Elections are clean, with some exceptions, civil liberties are broadly protected and possible veto powers are weakened. The military, responsible for six coups between 1930 and 1976, has withdrawn from politics. The constitutional order has not been interrupted since Argentina's return to democracy. The repeated FPV victories in the general (2003 and 2007) and mid-term elections (2005) were the product of opposition weakness, not of incumbent abuses. The ruling coalition's loss of its majority in the 2009 mid-term elections is an alarm for the government, but it is not a sign of a reinforced and more cohesive opposition. The government process in view of the presidential election in 2011 is more complicated and demands a flexible leadership and concessions to possible veto players inside the Peronist movement and beyond.

Performance of
democratic
institutions

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Commitment to
democratic
institutions

8

5 | Political and Social Integration

The systemic crisis of 2001-2002 had a profound effect on the party system. Even though the Peronist voter base is relatively stable, the system as a whole suffered a partial collapse. The degree of fragmentation is high, the weight of the different players is very unbalanced and volatile, and the degree of polarization has grown. Some Peronists operate in the opposition, while some non-Peronists have allied themselves with the government. The UCR is still fighting for survival and is in disarray, with the majority of the UCR governors and the most important UCR mayors in alliance with the Kirchners – thus earning them the label “K-Radicals” – while the national leadership of the UCR has maintained its opposition strategy.

Party system
6

Opposition forces on both the left and the right remain divided. None of the opposition parties that emerged in the wake of the UCR’s collapse possessed a national organization or a significant activist base. Smaller parties, such as the center-right Propuesta Republicana (PRO) and the more left-leaning *Afirmación para una República Igualitaria* (ARI), occupy different positions on the political spectrum, and are active only in certain provinces. Since the general elections in 2007, only ARI has been a viable political force in competition with the PJ and the UCR. In contrast to these two parties, the national third parties have never established an effective party organization and are overly dependent on the popularity of a single leader (or small coterie of leaders).

Kirchner’s overwhelming victory in 2007 was a product of this opposition weakness. She came to power with ample control over the Congress, but growing fragmentation among the Peronists has made it more difficult for her to exercise partisan control. In 2008, Néstor Kirchner conquered the PJ presidency, resulting in a de facto single-party government (“Kirchnerismo”). This Peronist dominance may be the biggest threat to good governance in the country. Néstor Kirchner was the last Peronist able to unite the subdivisions of the party, and his loss leaves behind a fragmented Peronist movement.

The existing network of associations reflects most social interests and is to some extent capable of mediating between society and the political system. However, it is relatively fragmented and dominated by a few strong interest groups, above all business organizations and unions, producing a latent risk of mutually reinforcing conflicts. The established channels between organized interest groups and the executive were interrupted during the crisis of 2001-2002. Néstor Kirchner only partially restored these relationships. Systematic negotiation and agreements with both organized labor and domestic businesses have been part of Kirchner’s greater goal of economic development, due to the need to contain inflation, or more specifically one of the main traditional drivers of Argentine inflation: excessive wage increases. Wage agreements have been paralleled by bilateral government

Interest groups
7

business pacts on maximum prices in each sector. However, Kirchner's strategy of growth through domestic industry has changed the relationship between state and business and has made the government vulnerable to pressure from domestic business.

Organized labor continues to play a strong role in Argentina. While market reforms and deindustrialization had weakened the organized labor movement since the 1980s, Argentina has witnessed post-reform resurgence in terms of the mobilization power of a relatively diminished union sector. This resurgence of trade unionism is related to the advent of a pro-union government and the strength of the labor market in recent years. However, the rise of new social movements during the crisis, and of alternative trade unions, increasingly threatens the hegemony of the established trade unions. Additionally, the image of the trade unions as corrupt organizations has by no means disappeared. For many people, the trade union bosses are part of the political establishment and were included in the slogan, "throw everyone out." Today, the unions no longer play a quasi-universalistic role as agents of the working class; instead, they play a new role in the neo-corporatist model, acting as a moderating force in the economy. Argentine trade unionism now represents around half of the working class; indeed, some union demands may contradict the needs of the weakest and poorest sectors of the lower class. For example, relatively high-income workers successfully fought against paying higher payroll taxes, and as a result, there may be fewer resources for social policy targeted at the extreme poor or the informal sector. In sum, the Argentine mainstream unions today are agencies that simultaneously foster social equity (by fighting for higher wages) and inequality.

In its relationships with businesses, the government seeks to secure a more cooperative relationship in order to persuade companies to direct some profits towards their workers through schemes of corporate responsibility; in exchange, the government clearly rejects the introduction of a comprehensive program of taxation on income, fixed assets and profits. Employers have become more cooperative in collective negotiations. Argentine law provides unions with the right to negotiate collective bargaining agreements and with recourse to conciliation and arbitration. The Ministry of Labor, Employment, and Social Security ratified collective bargaining agreements that cover roughly 75% of the formally employed work force.

According to Latinobarómetro 2010, support for democracy is high (2010: 66%; 2008: 60%), but has decreased since 2006, when support stood at 81%. Eighty-three percent are convinced that democracy is the best governing system and 73% that democracy without a Congress cannot exist (Latin America: 59%). Sixty-three percent believe that the most effective way to change things is to vote; only 14% are convinced that participation in protests is more effective. Political protests target the political class as a whole, but do not tend to call into question the constitutional

Approval of
democracy
9

framework. Mistrust towards democratic institutions, their ability to be representative and their performance has not disappeared. In general, there is a wide gap between acceptance of democratic institutions and judgments about their functioning. One exception from the generalized mistrust of democratic institutions and representatives has been President Kirchner, whose popular support oscillated between 60% and 70% until the end of his term. The popular acceptance of his wife and successor was also high at the beginning, but has diminished dramatically during her first year, to only 23% at the end of 2008. After the loss of her husband Néstor, her popularity rose again to about 50%. Citizens also expressed highly skeptical opinions about the representativeness of the government: 87% of the population (2008: 75%) is convinced that the government favors the interests of a minority over those of the majority (the second highest percentage in Latin America).

Since the 1980s, civil society has been broadly organized and highly differentiated. Self-organization and the construction of social capital advanced. But, while new social actors cooperate on the local level, where more than one-third benefited from horizontal social networks, their relationships with parties, parliament and the government was marked by distance and confrontation until the general elections of 2003. The renewed dynamism of civil society as a provider of services due to the retreat of the state helps to explain why Argentine society has been able to resist the recent social and economic collapse without a more violent social outburst. The impact of civil society organizations was remarkable in terms of human resources mobilization on a voluntary basis during the crisis years, but this effect decreased in the following years of economic recovery and with the spread of social programs targeting those most affected. In terms of social capital, mutual confidence is still underdeveloped. Fundamental social norms are poorly developed; some authors even regard Argentina as “an anomic society.” Rule-flouting individualism and interest groups determine behavior.

Social capital

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II. Economic Transformation

6 | Level of Socioeconomic Development

Key social indicators, which had dramatically worsened since the second half of the 1990s until 2003, improved in the following years. However, after five years of high GDP growth rates (8-9% annually), the economy was afflicted by a four-month farm conflict and the global economic crisis of 2008-2009. Nevertheless, the country weathered the crisis relatively well and the economy continued to function effectively. In the HDI 2010 update, Argentina ranks 46th out of 169 countries with

Question

Score

Socioeconomic
barriers

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a score of 0.75, being surpassed by only one Latin American country, Chile. In the HDI of Latin American and Caribbean as a region, the score increased from 0.578 in 1980 to 0.706 today, placing Argentina above the regional average. Exclusion based on gender, religion and ethnicity play a minor role, at least compared to most other Latin American countries.

Some unofficial estimates suggest that unemployment and poverty levels may be considerably higher than official data suggest. Based on INDEC data, experts calculate that poverty was reduced considerably from 49.9% in 2003 to 26.5% in 2007, but has stagnated since then, reaching a rate of 23.3% in 2010. Poverty, income inequality and the scope of the subsistence economy remain challenging. Due to their dependence on subsistence production, a considerable share of the population tends to be excluded from market-based socioeconomic development. According to CEPAL, the Gini index increased sharply in the 1990s until 2003 to about 0.58, but this trend was then reversed by 2008 to about 0.51, and has remained somewhat stable since then. The income gap between the richest 10% and the poorest 10% is today the same as in the last trimester of 1998, the year of the beginning recession, and is 12 times higher than in the last trimester of 1988. Argentina continues to be a country just as much or more unequal as one generation before.

Economic indicators		2007	2008	2009	2010
GDP	\$ mn.	260768.7	326676.7	307081.8	368736.1
GDP growth	%	8.7	6.8	0.9	9.2
Inflation (CPI)	%	8.8	8.6	6.3	10.8
Unemployment	%	8.5	7.8	8.6	-
Foreign direct investment	% of GDP	2.5	3.0	1.3	1.7
Export growth	%	9.1	1.2	-6.4	14.6
Import growth	%	20.5	14.1	-19.0	34.0
Current account balance	\$ mn.	7354.5	6754.9	8404.6	3081.5
Public debt	% of GDP	67.7	58.1	57.6	47.8
External debt	\$ mn.	117317.2	118901.9	120282.7	127849.5
Total debt service	\$ mn.	8970.1	7724.1	12126.9	14039.8

Economic indicators		2007	2008	2009	2010
Cash surplus or deficit	% of GDP	-	-	-	-
Tax revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	12.9	13.4	15.2	14.9
Public expnd. on edu.	% of GDP	4.9	-	-	-
Public expnd. on health	% of GDP	8.4	8.4	9.5	-
R&D expenditure	% of GDP	0.51	-	-	-
Military expenditure	% of GDP	0.9	0.8	1.0	-

Sources: The World Bank, World Development Indicators 2011 | International Monetary Fund (IMF), World Economic Outlook 2011 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2011.

7 | Organization of the Market and Competition

The foundations of a competitive market economy are by and large assured, but the rules for market competition are not consistent or uniform for all market participants. The informal sector diminished since 2003 but is still significant; estimates vary between 30% and 45% of the economy. The importance of administered pricing has grown during the 2000s as the government introduced price controls for basic goods and services and periodic controls on exports in its effort to fight inflation. According to the Global Competitive Survey 2010-2011, Argentina ranked 87th out of 139 nations. The five most restrictive factors to doing business are political instability, inflation, access to financing, corruption and inefficient government bureaucracy.

Regarding the control of capital flows, the Global Competitive Survey 2010-2011 ranks Argentina 132nd out of 139 countries. The central bank has established registration requirements for capital flows and has restricted the participation of foreign entities in certain initial public offerings. Despite a number of protections for free capital and currency transfer, the flow of capital is restricted, and repatriation is subject to some control. No performance requirements are aimed specifically at foreign investors. Special regimes apply to mining, oil and gas, and other natural resource sectors. Foreign companies may invest without prior government approval, and on the same terms as investors residing in Argentina. Investors are free to enter Argentina through merger, acquisition, Greenfield investment or joint venture. Although registering a foreign business is fairly simple, and most local companies may be wholly owned by foreign investors, foreign investment is prohibited in various sectors. The most significant deterrent to investors is the legal uncertainty surrounding creditor, contract and property rights.

Market-based
competition
6

Investments can be expropriated or nationalized only for public purposes upon prompt payment of compensation at fair market value. Foreign and Argentine firms face the same tax liabilities.

Anti-monopoly policies exist but are executed within a weak institutional framework. They are very inconsistently enforced or even politically instrumentalized. Néstor Kirchner in particular tried to utilize laws on competition to benefit Argentine firms. The formation of monopolies and oligopolies and increasing market concentration during the 1990s led to the passage of a new Antitrust Law in 1999. However, the implementation of effective antitrust policies encountered severe barriers. The law provided for the creation of an independent Antitrust Tribunal, which has not been put in place. Thus the agency created by the former Antitrust Law, the National Commission for the Defense of Competition, is still responsible for recommendations in all mergers and antitrust issues, while the government issues the final decision on such matters. The government has justified its refusal to create the Tribunal for the Defense of Competition with the argument that such an organization would be incompatible with the creation of large firms that can compete at the regional level. The government claims the power to decide on sensitive competition issues, especially in strategic areas such as energy or media.

Anti-monopoly
policy

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Foreign trade is liberalized in principle, but several exceptions remain, including differentiated tariffs and privileges for some domestic sectors and industries. According to the 2010 Index of Economic Freedom, Argentina's weighted average tariff rate was 5.3 in 2008, which point to somewhat distorting tariffs. In the Mercosur, approximately 99% of traded goods have no tariff restrictions. Nonetheless, there are multiple protectionist measures and trade disputes, particularly with Brazil, Argentina's most important trade partner. For some products, such as beef, there are export restrictions. Permission for Mercosur countries to make exceptions to the common external tariff expired at the end of 2010.

Liberalization of
foreign trade

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Foreign sales of manufactured goods are promoted by means of a number of incentives, including tax refunds, and by maintaining free trade zones and a special customs area in Tierra del Fuego. Although there are no preliminary requirements for imports, permits are required for certain goods. According to the U.S. Department of Commerce's 2010 Country Commercial Guide, the Argentine government also imposes phytosanitary rules, specific duties, anti-dumping investigations and quotas to protect domestic products from competition from imported goods.

The move from convertibility to a managed float exchange rate regime, along with high commodity prices, has lifted the value of exports to record levels. National and foreign investment grew sharply. The trade surplus is one of the pillars of the

current government's economic model. Imports were pushed up by fuel and capital goods. Exports were driven by the agribusiness sector. The national service for food and agriculture (Senasa) reported that grains and oilseed crops accounted for 80% of export revenues. The current comparative advantage resulting from the favorable exchange rate is also fuelling re-industrialization. Argentina is therefore trying to improve its international market access.

The banking system and capital markets are relatively well differentiated, but only foreign banks are internationally competitive and meet international standards. The banks remain susceptible to broad fluctuations because of their substantial dependence on external capital. Privatization and liberalization during the 1990s brought mergers and oligopolistic formations, as well as company and bank collapses. The economic breakdown in 2001-2002 produced a banking system collapse. Meanwhile, the banking system is more solid and banks have returned to profitability. The central bank has doubled its reserve funds. Private sector bank balance sheets, which deteriorated significantly during the economic crisis, recovered. Credit – primarily to the private sector – increased at a faster pace than nominal GDP growth, exhibiting improved levels of liquidity and a significant reduction in net exposure to the public sector. According to the private rating agencies, most private banks (which hold approximately 55% of total financial system deposits and 67% of loans) have returned to solvency. Public banks are also solvent and liquid. However, across the system, new lending is mostly short-term, as access to long-term financing is limited and borrowers are reluctant to borrow long-term at variable rates. This can complicate government and private sector efforts to develop a long-term fixed interest rate market, without which it will be difficult to deepen Argentine's financial markets or support large-scale project financing.

Banking system

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8 | Currency and Price Stability

Argentina's economic policy goals include controlling inflation and implementing an appropriate foreign exchange policy, but to some degree they are institutionally and politically subordinated to other goals. The Kirchners' approach to control inflation has been to put out fires as they come up with the introduction of ad-hoc policies such as price controls for basic goods and services, or periodic controls on exports in an effort to stabilize prices for goods in the domestic market. These instruments include making agreements with producers and intermediaries, or limiting beef exports to maintain supply levels for the domestic market. Official statistics put the country's inflation rate below 10%, but independent economists emphasize that these figures grossly understate consumer price increases and that the real figures in 2010 are 25-30%. The manipulation of the inflation rates by the INDEC is widely discussed and criticized. The underestimation of inflation

Anti-inflation /
forex policy

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demonstrates an unwillingness of the government to pay its debts, since some 41% of public debt has interest payments indexed to the official consumer price index (CPI).

Argentina's central bank has been largely independent and has managed monetary and currency policy in support of the economic expansion, maintaining an under-devaluated or "competitive" exchange rate and negative real interest rates. In 2010, the government provoked a conflict with the central bank by using one part of their reserves for the debt service over the objections of the bank's president, Martín Redrado. This was prohibited by law, but Cristina Kirchner issued a decree to remove Redrado and designate Mercedes Marcó del Pont as his successor. This act was strongly criticized as a clear violation of the independence of the central bank, which is ostensibly guaranteed by law.

The government's fiscal and debt policies seek to maintain macroeconomic stability but lack institutional safeguards. There are no political or institutional bulwarks against risky policy changes motivated by populism. Both presidents have exercised a great deal of discretionary power in budget issues that is not audited by parliament or other agencies. Huge amounts of off-budget money have been used to build political machines. Another point of worry is the problematic reform of the financial adjustment mechanisms between the central government and the provinces, a move that the IMF has emphatically demanded.

The Kirchners' debt policies have served to reduce external vulnerability through the stabilization and rationalization of Argentina's debt burden. This has reduced the country's external vulnerability by reducing the potential pressure of a traditional currency/balance of payments crisis. The accumulation of large reserves has also served to give Argentina a cushion against falling export prices or volumes.

From May to June 2010, the government offered a debt restructuring for private holders of defaulted bonds. Two thirds of the private bondholders participated, leaving approximately \$6 billion in private default claims still outstanding. At the end of 2010, the government claimed that, after the 2005 restructuring and the debt swap in 2010, Argentina had settled 93% of the \$102 billion it defaulted on during the 2001-2002 economic crisis. At the beginning of 2011, an arrangement with the Club of Paris seems near. The only open question is the amount of penalty interests that Argentina will have to pay as a consequence of nine years in default.

9 | Private Property

Property rights and the regulation of property acquisition are defined in principle, but practical enforcement in accordance with the rule of law is problematic because of deficiencies in the judicial and administrative system. The executive branch

Macrostability

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Property rights

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influences Argentina's judiciary; the courts are notoriously slow, inefficient, secretive and often corrupt, and many foreign investors resort to international arbitration. Property rights are not adequately safeguarded against political intervention. The government of Argentina adheres to most treaties and international agreements on intellectual property and belongs to the World Intellectual Property Organization and the World Trade Organization (WTO). Patent protection is an ongoing problem in Argentina's intellectual property rights regime and extension of adequate patent protection to pharmaceuticals is a contentious bilateral issue. Software piracy is increasing. Government manipulation of inflation statistics has caused domestic bondholders to lose billions in interest payments.

Private companies represent the backbone of the economy. The State Reform Law of 1991 privatized large portions of basic industry, infrastructure and other public services. At the same time, significant segments of local industry were bought up by foreign firms. Privatization was accompanied by a series of corruption scandals and several undesirable side effects including monopoly formation. The crisis of 2001-2002 motivated the government to freeze the tariffs of privatized public enterprises. This provoked conflict between the government and the firms. While the government complained about the lack of investment, the companies demanded compensation for the revenues they lost as a result of the end of the dollar-peso parity. As a reaction to the lack of investment by foreign companies, the two Kirchner governments declared that all contracts would be subject to revision, reversed the privatization trend of the former years, revoked some concessions and nationalized some public services. Néstor Kirchner re-nationalized the Correo Argentino postal service, the airports, and Aguas Argentinas, the water company. Under Cristina Kirchner, the most spectacular cases of re-nationalization were those of the Aerolíneas Argentinas airline in September 2008 and of the ten private pension funds two months later. With respect to the latter case, the law exhibits ambiguities and juridical gaps, giving the government a wide range for discretionary decisions.

Private enterprise

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10 | Welfare Regime

Social safety nets are developed to some degree, but do not cover all risks for all strata of the population. During the twentieth century, Argentina developed a welfare regime that was universal in scope but increasingly suffered from imbalances. The reforms of the 1990s induced the partial privatization of social security and the decentralization of education and health care. The pension system was reformed into a mixed system, introducing an individual capitalization regime and private pension funds that, however, were nationalized by Cristina Kirchner in 2008. Today there is a mixed and rather fragmented welfare system of public,

Social safety nets

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private and corporate entities. Considerable portions of the population continue to live in poverty and have no access to social safety nets.

Though widely considered left of center, the Kirchner governments neglected structural social policies aimed at combating poverty, notwithstanding several particular social programs. Indeed, despite unprecedented fiscal health, the government did not invest heavily in either conditional cash transfers to the poor, or health and education programs for them, as did the left-center governments of Brazil and Chile. Social programs established to deal with the dramatic poverty emergency created by the 2001-2002 crisis, such as the Jefes y Jefas de Hogares program, were scaled back and frequently misused for political objectives. However, program targeting has improved in recent years. Some social programs have increasingly been incorporated in employment programs, indicating elements of real policies for both the labor market and the prevention of poverty. Rather than creating new social programs, both Kirchner governments invested heavily in public works. In June 2008, Cristina Kirchner announced the creation of a “social distribution program” that would assign revenues from increased taxes on grain exports to building hospitals, homes and rural roads, but at the end only a modest sum was transferred.

There are institutions and programs to compensate for gross social differences, but they are highly dependent on political cycles and are limited in scope and quality. Little government attention focused on the question of embedded poverty and indigence. Welfare remains stuck essentially in the safety-net model of neoliberalism, which at best can only ameliorate some of the worst manifestations of poverty. The problem for the government of course is how to raise sufficient income for social spending, especially if further tax increases are effectively vetoed.

The socially disadvantaged, poor women, indigenous peoples and immigrants do not have equal access to public services. Women have equal opportunities in education and active political participation. Argentina is one of the countries with the highest quota of representation of women, but at the same time women are the part of the population most affected by problems in the labor market and are therefore disadvantaged in the economic and social sphere. The Cristina Kirchner government began to address these problems, but clear-cut policies have not yet become visible. Finally, there is a vicious circle of a deteriorating education system and social exclusion. The distance between education and the requirements of the labor market in the twenty-first century begins to open up in secondary school. Fifty-eight percent of the labor force between 25 and 64 years of age, as well as 75% of pupils from poor families, have not finished secondary school.

Equal opportunity

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11 | Economic Performance

Economic growth, only briefly interrupted in 2008/09, enabled the government to accumulate substantial official reserves (over \$50 billion in 2010). These reserves, combined with the absence of fresh borrowing from the international capital market, helped the economy to weather external turbulence. A higher tax burden, improved tax collection efforts, and the recovery of tax revenues has supported the government's successful efforts to maintain primary fiscal surpluses since 2003.

According to figures from CEPAL, economic growth was 8.4% (7.3% per capita) in 2010. Investment increased according to official figures by approximately 20.5% of GDP, and the foreign trade surplus grew by 26% compared to 2009. The fastest-growing sectors of the economy were construction, transport, storage and communications. In the context of this rapid growth, the unemployment rate fell from 21.5% in 2002 to 13.2% in 2009.

Notwithstanding these promising figures, some economic problems remain on the agenda: high and growing inflation; a remaining demand for state subsidies to maintain artificially low prices for public utilities, such as transportation, fuel and food; demands for salary raises for state workers and pension increases; and the unresolved farm conflict. Some independent economists estimate that poverty and unemployment rates are considerably higher than the INDEC figures show. The rates of investment and saving are still relatively weak. Susceptibility to external shocks, first of all to the volatile world market prices for commodities, remains high and the informal sector is still large. Investment in science and technology has increased under the Cristina Kirchner government but remains insufficient. The two central problems for a sustained development – the reduction of external vulnerability and the strengthening of productivity – remain unsolved.

Output strength
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12 | Sustainability

Argentina faces significant challenges in relation to the preservation of its natural environment. In particular, the expansion of genetically modified soy cultivation is contributing to the degradation and erosion of the soil, to the loss of biodiversity and to a high index of water contamination. Pollution is a major environmental problem in Argentina, especially water pollution in urban areas due to harmful disposal practices and in rural areas where rivers are polluted by the increasing use of pesticides and fertilizers. Additional threats to the environment are the overexploitation of vast mineral resources, erosion due to inadequate flood controls and inappropriate land use practices, the hole in the ozone layer above Patagonia and the South Pole, and the deterioration of irrigated areas and desertification.

Environmental
policy
5

Though the goal of sustainable development was incorporated in Article 41 of the 1994 constitution as the “polluter pays” principle, environmentally compatible growth receives only sporadic consideration and has a weak institutional framework. During the past fifteen years, Argentina has put legislation in place to regulate most existing environmental problems, and several provinces have included environmental concerns in their constitutions. Nonetheless, existing environment laws are often not enforced because of budget constraints or a lack of adequate control mechanisms. In addition, the current allocation of environmental responsibilities to several national, provincial and municipal agencies undermines policy coherence, enhances the risk of overlapping jurisdictions, weakens controls and is conducive to low compliance levels. One positive development has been the Environment Agenda in 2006 by the National Secretariat for Environment and Sustainable Development, but its implementation has been slow to date.

Together with Uruguay and Chile, Argentina ranks at the top level of education indices in Latin America and has a well-articulated system of primary and secondary education; however, despite increased expenditures, it is still underfunded. The same holds true for the otherwise well-developed public university system, which has been complemented by a network of private universities since the 1980s. The structures that are necessary for efficient school system administration could only be developed in a few provinces, and the widening quality gap between rich and poor provinces is spawning a disturbing development. The education system suffers in part from low quality and salaries, deep inequality and large differences between the federal states. Seventy percent of scientific personnel are concentrated in only three provinces: the federal capital, Córdoba and Santa Fé. The province of Buenos Aires is particularly severely disadvantaged by the uneven distribution of financial resources.

Under the Kirchners’ governments, the public expenses for education and investigation increased substantially, reflecting the conviction of both presidents that science and research are fundamental pillars for the recovery of the national economy. The government subsequently raised expenditures up to 5.4% in 2007, with the goal of reaching 6% in 2010. R&D expenditures stood at 0.51% of GDP in 2007 and should be 1% of GDP in 2010, according to the national strategy. Argentina occupies the third position in Latin America after Brazil and Chile, but is very far from reaching the figures of OECD countries. The private sector remains underrepresented with 39%, notwithstanding reinforced efforts of the government. The majority of national enterprises focus on increasing profit rather than innovation.

Education policy /
R&D
6

As the PISA study points out, the government spends a lot of money in the education sector, but the results are modest. The wretched state of the economy at the beginning of this decade resulted in a massive “brain drain” which, in turn, has impeded the country’s development chances even further.

Transformation Management

I. Level of Difficulty

Structural constraints on governance have been moderate since the political and economic recovery that began in 2003. Several developments have improved the conditions for government performance: the majorities in the two chambers of parliament until the mid-term elections in June 2009, the good performance of the international economy, high raw material prices, a weak U.S. dollar, the recovery of the world economy and of most Latin American economies after three years of stagnation, recession and debt arrangements, and the fragmented and weakened opposition. Aside from growing inflation rates, and the high (but reduced) rate of poverty and the extent of the informal economy in urban areas, there are no major structural constraints in the socioeconomic field.

Structural
constraints
4

Argentina has a moderate tradition of civil society. Civil society organizations, particularly human rights groups such as the Madres de la Plaza de Mayo, played an important role during the transition period from authoritarian to democratic governance. However, with the strengthening of the two major political parties, the PJ and the UCR, the political influence and clout of civil society organizations has diminished. Nowadays, the field of the civil society is very fragmented and their objectives are very diffuse. In the context of the 2001-2002 crisis, new civil society organizations, such as the piqueteros, have emerged as important actors. Many of their activities were spontaneous and poorly organized, focusing on day-to-day problems; others tried to answer the social call for action against the rampant crisis and the political inadequacy to cope with it. Some of the new movements disappeared with the economic recovery; others were co-opted by the Néstor Kirchner government or joined up with the agrarian farmer unions in the conflict with the government over export taxes on agrarian products.

Civil society
traditions
4

There are no severe ethnic or religious cleavages. Division along social or ideological divides is moderate. Due to widespread discontent with poor political management, society and the political elites remain somewhat polarized. The expansion of social inequality culminated in the 1980s and 1990s in different forms of social protest, such as rioting, street blockades and supermarket plundering. In 2001 and 2002, they transformed into new social movements and forms of protest

Conflict intensity
4

(piqueteros, cacerolazos), which, however, increasingly declined in intensity and violence or disappeared. The majority of protests during the period under review was peaceful and did not infringe upon the legal order. Cristina Kirchner's populist strategy in the agrarian conflict, in which she called on her supporters for mass demonstrations, thus avoiding Congressional debate on the export tax until 2008, further polarized Argentine society. Violent incidents – for instance the social unrest in the Parque Indoamericano, which was invaded by squatters, or the street riots of young people in the Constitution railway station, both in December 2010 in Buenos Aires – were exceptions to an otherwise peaceful protest culture.

II. Management Performance

14 | Steering Capability

The political leadership pursues some long-term aims, but it sometimes postpones them in favor of short-term political benefits. The leadership seeks to maintain democracy and a market economy, but its strategic aims are only in part commensurate with the country's situation and problems, and the needs of the population. Cristina Kirchner promised to concentrate her government on a few priorities, following and deepening the strategic line of her husband and setting new accents in infrastructure, social policy and in the area of foreign relations. She forced the nationalization of private retirement pensions through Congress in 2008, worth \$25 billion, as the government needed money. The president neither upheld her promise to strengthen political institutions nor did she provide a sound economic framework. As her behavior in the farm conflict and in the debate about incorrect statistical figures demonstrates, she is following an inflexible course of action based on a populist strategy of mobilizing her followers and eluding the treatment of the conflict in the representative institutions, parties and Congress. The hope for a new political style and some corrections of the hitherto existing development strategy after the death of her husband has not been fulfilled.

The government is committed to democracy and a market economy, but has had only limited success in implementing its announced reforms. The implementation capacity of Cristina Kirchner's government was restricted or blocked by the conflict with the farmers' unions, internal conflicts within the PJ, political miscalculations and a lack of internal governmental coordination. Only a few of her programs have been successfully implemented. The most contentious issue, the agrarian conflict, remained unresolved. Both Néstor Kirchner and his wife were forced to govern in a coalition with the negotiated consent of party bosses, and Cristina Kirchner has had to work with some members of the opposition, the so-called K-radicals. The

Question
Score

Prioritization
6

Implementation
6

difficulty of achieving legislative discipline, despite the PJ's legislative majority in Congress, explains why Cristina Kirchner sought an extension of emergency executive decree authority immediately after taking office.

Whereas presidents Duhalde and Néstor Kirchner responded somewhat effectively to the mistakes and failed policies of the past, Cristina Kirchner has shown little willingness and ability in policy learning; instead, she has remained stuck in routines that do not allow for innovative approaches. Néstor Kirchner, an anti-establishment politician, concentrated government action on a few priorities, sometimes against strong international opposition, as for example in debt questions. Kirchner's government style was authoritarian and opaque, sometimes imperious and rarely cooperative. He never held a cabinet meeting, refused to receive ambassadors, purged the Supreme Court, made uninhibited use of government money, taped telephone calls and characterized all forms of dissent or disagreement as illegitimate. His inner circle was limited to a selected few. Cristina Kirchner won the October 2007 presidential election with 45% of the vote, 22 points ahead of her nearest rival. Her campaign was favored by a strong economy, which had grown by 8% each year since her husband took office. Cristina Kirchner began her presidency with a high rate of acceptance and the promise of "continuity in change" – a very ambiguous formula – and to cultivate a "culture of dialogue." But the promise (and expectations among Argentine citizens) of dialogue was not realized. As the agrarian conflict and other conflicting issues (for example, the INDEC manipulation by the government) clearly demonstrate, her political behavior has become more and more authoritarian and inflexible. Cristina Kirchner is surrounded by a closed circle of functionaries and her actions are not coordinated, neither with members of her cabinet nor with her PJ faction, the Front for Victory (FV). In sum, she governs in a style very similar to her husband's, but has not learned from his errors and continues in the same manner or even worse.

Policy learning

5

15 | Resource Efficiency

The Kirchner government used only part of its available resources efficiently. The main problems in the efficient use of resources are the president's discretionary power in budget issues and the way in which public servants are appointed. Financial auditing remains insufficient. Neither the planning nor the implementation of the national budget is transparent. The so-called Economic Emergency Law – still in force despite the fact that the emergency has been over for a long time – enables the government to change budget items or increase expenditures without parliamentary approval. Combined with a constant underestimation of state revenues in the proposed budgets, this allows for additional expenditures of almost 30% that are not subject to controls. In effect, there is no

Efficient use of assets

5

trusted information about the deviation of actual budget expenditures from the associated planned expenditures. After the executive branch and Congress failed to reach an agreement over a new budget, President Kirchner issued a decree on December 29 to roll the 2010 budget over into 2011. It is very probable that she will raise spending through executive decrees ahead of the general elections in October 2011.

There is neither an efficient use of government administrative personnel nor an efficient administrative organization. By law, civil service positions are awarded through merit-based competition, though noncompetitive employment recruitment is used to bypass the system. Many jobs in the public sector are the result of machinations within clientelistic networks, especially at the province level. At the top level there are erratic and sometimes abrupt personnel changes. The quality of the civil service is severely affected by political interference that undermines professionalism and the administration's meritocratic principles. In the diplomatic service, the Kirchner governments have relied on clientelistic appointments rather than career diplomats. Another emblematic case was the politicization of the National Institute of Statistics (INDEC); the government replaced the qualified technical staff with political appointees in order to manipulate inflation and other macroeconomic data. In addition, there are great differences inside the federal bureaucracy and even more at the provincial level, where professional standards are generally very weak.

The Kirchner governments have attempted to coordinate conflicting objectives and interests, but have achieved only limited success. The presidents' usual response to upcoming conflicts with cabinet or party members was a decision from above – usually issued by decree – or a non-decision. Cristina Kirchner prefers to govern with a restricted group of confidants inside and outside of her cabinet. Potential internal government friction was nipped in the bud by both presidents. The number of conflicting issues between the president and the legislature was reduced. The opposition was too fragmented and weak to engage in serious conflicts with the executive and prevent government decisions. Some congressional members of the opposition supported the president with their votes.

The real opposition comes from the ranks of the Peronists and is associated today with influential politicians, such as ex-president Eduardo Duhalde, Carlos Reutemann, a senator from Santa Fé, and Hugo Moyano, Secretary General of the CGT. As a result of the conflict with the farmers, the government has become increasingly isolated. Unable to capitalize on divisions emerging in the agriculture lobby, various government ploys at winning public support have failed, while political miscalculation has served to alienate the population further. Vice President Cobos, who was responsible for the failure of the government's agrarian proposal in the Senate along with other politicians and provincial governors allied to the PJ, has deserted the Kirchners. Nonetheless, the opposition inside and outside the PJ does

Policy
coordination
6

not have a shared common strategy for the coming election, nor does it have a candidate that could compete with Cristina Kirchner.

Although criminal prosecution of corruption appears to be a priority in the eyes of the public and was declared one of the priorities of both Kirchner governments, it continues to pervade Argentina's public institutions. There is vulnerability to corruption and political influence at all political and administrative levels. Although laws, organizations and intentions exist to investigate corruption in Argentina, they are slow and ineffective. The weakness of the rule of law is combined with a system of privileges that violate the principle of equality. The system lacks transparency, efficiency and neutrality. Foreign investors complain about corruption in both government and the private sector. Criminal prosecution remains an exception in actual political practice. Illegal campaign financing and money laundering usually go unpunished. There is no effective auditing of state spending.

Anti-corruption
policy
5

Anti-corruption activists have accused both Kirchner governments of stalling on their good government agenda, particularly in not ensuring the effective functioning of administrative controls. The Anti-Corruption Office (Oficina Anticorrupción), which was implemented by the De la Rúa government and under which it enjoyed considerable independence, depends now on political will in order to initiate certain types of investigations. In addition, its authorities are appointed and removed by the president. Under the Peronist governments since 2002, it has become increasingly difficult for the agency to carry out investigations that jeopardize the government's reputation.

16 | Consensus-Building

All relevant political actors agree that a market-based democracy should be Argentina's development goal, although ideas about the obstacles that will be encountered and the strategies that should be applied vary widely. In addition, apart from consensus on these basic goals, there is no agreement on eliminating defects in democracy or strengthening political and economic institutions. Efforts made under the de la Rúa administration abruptly ended with the 2001 crisis. Since then, Peronist hegemony in the political system has provided for the maintenance of this "low-level equilibrium" in which dominant actors are considered to be more important than institutions and can be checked or defied only by other dominant actors, not by the rule of law. The clout of the organized labor movement and its potential veto power underline the fragility of compromises and the government's weakness at meeting demands after the death of Néstor Kirchner.

Consensus on goals
8

The fact that the approval of democracy continues to be very high, that there was no threat of a military coup after De la Rúa's forced resignation in 2001 and that constitutional procedures were followed in principle, can all be interpreted as signs

Anti-democratic
actors
8

of the maturity of Argentine democracy, especially in light of its dictatorial past. Relevant veto actors with an explicit anti-democratic agenda do not exist. Two important former veto powers – the military and the church – are seriously weakened. The agrarian unions fought strongly against the export taxes imposed by Cristina Kirchner’s government, but they did not resort to violence as a strategy and they do not harbor anti-democratic interests. On the other hand, the power of the CGT and of its leader, Hugo Moyano, has increased in recent years. Argentina’s trade unions have never had a tradition of defending democracy as a political regime. Under the leadership of Moyano, the unions are attempting to impose their partly anti-market strategies by illegal and even criminal means, while the Kirchner government remains somewhat reluctant to act in this matrix of power struggles leading up to the 2011 elections.

The political leadership prevents cleavage-based conflicts from escalating, though the government itself has occasionally contributed to the exacerbation of selective conflicts, above all with the farmers and with the media conglomerates Clarín and La Nación. The high level of conflicts in the agrarian sector forced Cristina Kirchner to bargain more cooperatively than her husband. Due to the necessity of building bridges to the opposition to create pragmatic arrangements, the intensity of confrontation has decreased. On the other hand, the government’s reaction to recent social protests and land occupation in the periphery of Buenos Aires was once again very rigid. Nevertheless, the unresolved agrarian conflict and the economic and social impacts of the international financial crisis have not yet provoked serious social conflicts.

The political leadership takes the interests of civil society – albeit selectively – into account. It accommodates them only in part and only when these organizations can put pressure on the government, or when they form part of the power base of the government and/or the leading party. A good example of the government’s discretionary behavior is the farmer conflict. In their inaugural speeches, both Kirchners envisioned “a culture of dialogue” and saw themselves as presidents of a new era, but in fact, the inclination of both presidents towards isolated or uncoordinated decisions was stronger. Cristina Kirchner prefers populist top-down approaches to urgent social, economic and political problems, which involves calling up partisans for mass demonstrations and taking some spectacular measures to garner popular support. The mobilization of adherents in a populist manner is not a convincing method of addressing problems and creating a base for dialogue and constructive solutions.

Social movements that succeeded in mobilizing marginalized sectors during the turbulence of the 2001/2002 crisis were gradually demobilized. Informal ways of exerting influence dominated, and formal democratic instances remained largely confined to piquetero leaders’ participation as individuals in parliament or governmental offices. The relationships between Cristina Kirchner and organized

Cleavage /
conflict
management

7

Civil society
participation

6

labor are more balanced and based on neo-corporatist arrangements. Neo-corporatism has been used as a mechanism to moderate distributive struggles in an increasingly open economy. Wage agreements have been paralleled by bilateral government-business pacts on maximum prices in each sector.

The political leadership has placed high priority on the issue of human rights violations and acts of injustice during past authoritarian regimes. During her presidency, Cristina Kirchner continued the human rights policies of her husband. A law implementing the Rome Statute of the International Criminal Court came into force in January 2008. A bill incorporating the crime of “enforced disappearance” into the penal code was approved in 2009. Néstor Kirchner embarked on a series of efforts to address past human rights abuses, and his progress in this area was quite remarkable. In 2006, the Supreme Court ruled seven to one against the “Full Stop” law (Punto Final) and the “Due Obedience” law (Obediencia Debida), which was partly backed by high-ranking army officers. According to the Prosecution Co-ordination Unit, more than 600 people were facing criminal proceedings for human rights violations, including enforced disappearances. Since the amnesty laws were annulled, 44 people have been convicted. The most spectacular trial was that of the ex-dictator Jorge Rafael Videla and General Luciano Benjamín Menéndez in December 2010; the first was sentenced to life in prison, the second to 28 years.

However, doubts remain if these somewhat radical measures will help to bring about a process of reconciliation between the victims and perpetrators of past injustices. In addition, trials against perpetrators of human rights violations suffer from various obstructions. There are complaints about the slowness and even indifference of the judiciary in handling these trials. According to the Center for Legal and Social Studies (CELS), 193 people implicated in crimes committed during the dictatorship died before being brought to justice. In its annual report of 2009, CELS calculated that, given the current pace of sentencing, the trials would not conclude before 2024, more than 40 years after the end of the military dictatorship. The security of witnesses in human rights trials has become a serious concern since the “disappearance” in September 2006 of a torture victim who had testified in one of the cases that year. In her speech before Congress on 1 March 2008, Cristina Kirchner recognized this failure and blamed the judiciary for it, which in turn accused the government and the legislative of not providing sufficient resources and enacting necessary reforms in the penal code.

Reconciliation
8

17 | International Cooperation

Since the recovery of the economy in 2003, the government has gradually begun to reopen the country to the international community. Some foreign policy measures, such as the debt swap and Argentina’s intimate relationship with Venezuelan

Effective use of
support
6

president Hugo Chávez, have shocked the northern countries. However, this did not prevent these states from normalizing their relations with Argentina and offering new investment and assistance programs. The prioritization of immediate economic recovery over satisfying foreign creditors and the international credit market and the break with the IMF were very controversial decisions but economically successful. During her electoral campaign, Cristina Kirchner sought to raise the profile of Argentina abroad, with official visits to Spain, France, Mexico, Germany, Chile and the United States, among other countries. U.S. analysts considered her presidency a potential turning point for relations with the United States, which were strained due to Néstor Kirchner's close relationship with Chávez. In 2010, five years after Argentina froze relations with the IMF, Cristina Kirchner announced the acceptance of an IMF review of the Argentine economy, but doubts remain about the seriousness of her offer. Relations with the United States remain on a low profile as a consequence of a series of diplomatic faux pas on the Argentine side. Foreign policy remains subordinate to domestic policy and is marked by improvisation, a lack of flexibility and defensiveness.

At the beginning of her presidency, the international acceptance and expectations of Cristina Kirchner were very high, but this has been replaced over time by a growing skepticism. The alliance with Chávez, the flirtation with the Castro regime, the inflexible position in the pulp-mill conflict with Uruguay, the premature recognition of a (future) Palestinian state, the interruption of gas supply to Chile, the clash with the Spanish government about the nationalization of Aerolíneas Argentinas and – last but not least – the often undiplomatic behavior of the president, her Foreign Minister or Argentina's ambassadors abroad, have all nourished doubts about the responsibility, continuity and reliability of Argentina's foreign policy. The lack of a coherent strategy in Argentina's foreign policy makes it difficult to implement a coherent and predictable strategy and to act as a credible partner.

Argentina's government favors foreign direct investment to enhance economic growth and productivity. It therefore offers incentives for foreign investors and maintains free trade zones and a special customs area. The country is active in the United Nations and other global forums. In the G20, in which the country has been a member since 1999, Argentina's diplomacy is closer to the BRIC states than to the northern countries. Relations with Europe are focused on Spain, France and Germany. Relations with the latter two countries are affected by an outstanding debt arrangement with the Club of Paris about the rest of the private bonds held by Europeans, as well as frozen tariffs of public enterprises. In recent years, Europe has shown growing interest in Latin America in general and in Argentina in particular, due primarily to the rapid recovery of the Latin American economies from the international financial crisis of 2008/09.

Credibility
5

The political leadership cooperates with many neighboring states and complies with the rules set by regional and international organizations. Both Kirchner presidencies focused on the strengthening of Mercosur, notwithstanding disputes with Brazil in the commercial sector, the pulp mill conflict with Uruguay and gas supply disputes with Chile. The relationship with Mercosur partner Brazil is characterized by a mixture of friendship, political rivalry and occasional commercial conflicts. Argentina has complained about the imbalance of trade relations in Brazil's favor and has defended protective measures. Despite these conflicts, however, there is an ideological affinity among the governments in the Cono Sur. They are also in favor of constructive cooperation in advancing the Mercosur process, strengthening UNASUR and expanding the south-south cooperation beyond the region. In 2010, relations with Brazil were consolidated in a wide range of treaties, fortifying the strategic partnership between the two Mercosur partners. The most contentious issue in foreign policy under the two Kirchner governments was the construction of a \$1.2 billion pulp mill on the Uruguayan side of the Uruguay river. On 28 July 2010, the dispute, which has been ongoing for seven years, appeared to reach a resolution; the agreement provides for joint environment monitoring of both sides of the Uruguay river basin, ending Uruguayan concerns that any monitoring scheme for the plant would amount to an invasion of sovereignty.

Regional
cooperation
8

Strategic Outlook

Ten years after the systemic crisis of 2001/02, the prospects for sustainable political and economic development in Argentina are not promising. The political system remains personality-driven and populist, based more on personal loyalty and clientelistic networks than on strong and representative political institutions and constitutional rules. The death of Néstor Kirchner, previously the undisputed political leader in the country, produced, on the one hand, the revalorization of the ex-president and of the Peronist movement. On the other hand, it has provoked the resurgence of power games in the political arena as new coalitions are forming to either support or combat Cristina Kirchner's re-election in 2011. Innovative learning processes among the political elite are not in sight. The unification process among opposition forces came to an end before it had really begun. The internal battle for leadership within the Radical Civic Union (UCR) remains just as undecided as the question of potential alliances with other political forces. The relationship between the central government and the provinces also remains precarious. The combination of parties, organized power in the provinces and the lack of internal democracy favors clientelism and permits only ad hoc coalitions, not the formulation and implementation of a sustainable political strategy.

In the economic arena, the next government will face the unresolved problem of inflationary pressure caused by the restructuring of pricing structures and swift growth in demand, which may lead to a supply bottleneck, and, as a political consequence, to social protests. The first steps to correct the upwards trends of inflation rates and inequality would be to reestablish a serious and credible statistical system, to implement structural poverty-reduction policies and to provide incentives for higher saving rates. However, the structural basis for sustained economic development remains fragile as Argentine development strategy focuses on the comparative advantages of a country with abundant natural resources. Susceptibility to external shocks, especially to volatile world market prices for commodities, remains high and the informal sector large. Capital flight remains high, reflecting the doubts of business circles about the sustainability of economic policy. A sufficient energy supply and a science-based production structure remain additional challenges for the next government.

It remains an open question whether the increasing gap between a rich minority and the impoverished segments of the population can be reduced in the long run. This will require a structural social policy that goes beyond assistance policies and clientelistic networks. The social policy under the Lula da Silva government in Brazil could serve as a model to learn from and perhaps emulate. Isolated presidential decisions, based on presidential decrees and high popular support, cannot compensate for the deficient articulation, channeling and aggregation capacities of the political parties, nor can they serve as a substitute for a Congress that neglects its functions of legislation and control. Crisis and institutional weakness tend to be mutually reinforcing, a dilemma that could be called the "Argentine disease."

Last but not least, one of the most urgent problems to address is a public debate between the political class, civil society representatives and the scientific community about the future of the country and the development strategy necessary to begin moving the country toward competitive and sustainable development. This debate does not exist currently, and the country is buffeted by ideas of autarky, ideas about national sovereignty that are out of date in a globalized world, and a strategy of increasing competitiveness and active integration in the world economy.

BTI 2012 | Bolivia Country Report

Status Index	1-10	6.23	# 46 of 128	
Political Transformation	1-10	6.85	# 39 of 128	➔
Economic Transformation	1-10	5.61	# 64 of 128	➔
Management Index	1-10	5.20	# 61 of 128	

scale: 1 (lowest) to 10 (highest)

score

rank

trend

Key Indicators

Population	mn.	9.9	HDI	0.663	GDP p.c.	\$	4849
Pop. growth ¹	% p.a.	1.6	HDI rank of 187	108	Gini Index		57.2
Life expectancy	years	66	UN Education Index	0.749	Poverty ³	%	24.7
Urban population	%	66.5	Gender inequality ²	0.476	Aid per capita	\$	73.6

Sources: The World Bank, World Development Indicators 2011 | UNDP, Human Development Report 2011. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$2 a day.

Executive Summary

During the review period, Bolivia completed the first phase of the political and economic transformation that began with the election of Evo Morales as president in December 2005. In January 2009, a new constitution was adopted through a referendum, winning more than 60% of the votes. In general elections in December 2009, President Morales was reelected with 64% support, and his party (Movimiento al Socialismo, MAS) obtained a two-thirds majority in both chambers of the new Plurinational Legislative Assembly. The second phase of the transformation, which began in January 2010, is now mainly about implementing the new constitution. Given the comfortable majority in parliament, a series of important structural laws was able to be adopted in the course of 2010, including laws on the Electoral Organ, the Electoral Regime, the Constitutional Tribunal, the Judicial Organ, and Autonomy and Decentralization. In April 2010, elections at the departmental and municipal level were held. The 2009 constitution also envisions the popular election of members of the highest judicial organs, including the Supreme Court and the Constitutional Tribunal. These elections were scheduled for 2011, after the close of the review period. In the meantime, President Morales appointed temporary judges to fill the vacancies in February 2010. In a very general sense, the political and economic transformation promoted by the Morales government aims at establishing a “plurinational” state that combines a plural democracy (representative and participatory) with a mixed economy. Institutions of liberal and representative democracy have been supplemented by mechanisms of direct democracy and unmediated participation by civil society organizations. Ordinary state law is paralleled by indigenous systems of justice that possess equal status, despite the normative clashes and unclear priorities that this creates. The liberal state is qualified by the recognition of indigenous forms of self-governance, and individual civil and political rights are complemented by far-reaching social, economic and collective (indigenous) rights. As regards the economy, the market economy is conceived of as one part of a plural economic order that combines private initiative with heavy state involvement in the economy – a tradition since the 1952 revolution – and communitarian and social cooperative forms of economic

organization. This project of profound transformation is broadly supported by the Bolivian population, particularly by the formerly marginalized sectors of society, but is highly contested by significant minorities, especially among the traditionally privileged sectors. While the “big” regional conflicts between the government and the eastern and southern Media Luna departments have calmed somewhat during the last two years, new local social and ethnic conflicts, even within the government coalition, have been on the rise.

History and Characteristics of Transformation

Bolivia is one of Latin America’s poorest countries, although it is one of the richest in mineral resources and soil conducive to productive agriculture. The disparities between its geographically, ethnically and economically heterogeneous regions are enormous, and have often led to strife and conflict. Of increasing political relevance in recent times has been the regional cleavage between the highlands, where the country’s de facto or administrative capital La Paz sits, and the southeastern lowlands (the Media Luna), where successful agribusinesses and the gas fields are located. Bolivia is not only poor, but is one of the most unequal countries in Latin America. The indigenous majority of the population has been particularly affected by a historical legacy of continuous discrimination. A total of 36 indigenous peoples have been counted in Bolivia (and are now recognized in the 2009 constitution with their own languages and collective rights), the largest being the Quechua (approximately 30% of the population) and the Aymara (approximately 25%).

The 1952 revolution of the Revolutionary Nationalist Movement (Movimiento Nacionalista Revolucionario, MNR) brought agrarian reform, the nationalization of the large mining companies, universal suffrage without literacy requirements, and a wide range of social policy legislation to the country. Between 1964 and 1982, civilian and military governments alternated in power. After 1982, a short and negotiated transition to democracy led to a relatively long period of uninterrupted democratic institutional stability that lasted from 1985 until President Sánchez de Lozada’s forced resignation in October 2003. This period was characterized by the dominance of three political parties that governed in changing coalitions (“pacted democracy”). These coalition governments implemented a series of market reforms that involved the usual neoliberal package of liberalization, deregulation and privatization. In the 1990s, additional political reforms deepened decentralization and introduced popular participation at the local level.

Though a significant achievement within the context of Bolivian political history, this “pacted democracy” had an exclusionary bias. Most of Bolivia’s poor and indigenous people felt excluded and marginalized. The grievances associated with neoliberal reforms added to this. During the 1990s, indigenous and social movements increasingly challenged the system of agreements between elites. Between 2000 and 2005, a series of political crises erupted, characterized by massive social protests that forced both elected President Sánchez de Lozada

(in 2003) and his successor Carlos Mesa (in 2005) from office. In the course of this period, union leader, coca grower and Movement to Socialism (Movimiento al Socialismo, MAS) head Evo Morales established himself as the leading representative of the diverse protest movements. In December 2005, Morales was elected president, becoming the country's first head of state of indigenous origin. Since then, Morales has led a process of decisive political change that has included a profound reshaping of the country's political system through constitutional reform as well as a change of course in economic, social and coca/drug policies. In 2006 and 2007, an elected Constituent Assembly wrote a new constitution, and after a revision of the constitutional draft by Congress in 2008, a broad majority (61%) adopted the new constitution in a referendum on 25 January 2009. In terms of economic and social policies, the Morales government has significantly increased the role of the state in the economy. In the course of the "nationalization of gas," international gas companies were forced into new contractual relationships, the control of the state (and the state company Yacimientos Petrolíferos Fiscales Bolivianos, or YPFB) in the hydrocarbon sector was strengthened, and taxes on gas companies were increased. Based on rising revenues from hydrocarbon and mineral resources, social spending and public investment was expanded. Regarding drug/coca policies, the Morales government abandoned the U.S.-driven emphasis on coerced coca eradication. On the one hand this change included recognition of the coca leaf's traditional role in indigenous cultures, an increase in the level of legal coca production and trade, and a push for coca's international legalization. On the other hand, the government has tried to limit the volume of coca production via community-led forms of social control, while continuing counternarcotics efforts aimed at drug trafficking. Within Bolivia, these changes have been (and still are) heavily contested. Given a weak and fragmented opposition at the national level, the resistance against Morales has come primarily from regional autonomy movements based in the eastern lowland departments of the Media Luna (Half Moon) and led by elected governors and "civic committees."

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 10 (best) to 1 (worst).

Transformation Status

I. Political Transformation

1 | Stateness

Question
Score

In Bolivia, there is no open challenge to the state's monopoly on the use of force. However, the state's actual presence does not extend to all parts of the country. Some regions are home to parallel power structures led by local landowners, narcotics traffickers or ethnic community organizations. Since 2005, regional movements demanding autonomy for the departments of Santa Cruz, Tarija, Pando and Beni (the Media Luna) have contested the central state's legitimacy and actual presence in these parts of the country. After violent outbursts in September 2008 and the adoption of a new constitution in January 2009 that integrates principles of regional autonomy, these demands are now largely pursued within the framework of the national constitution. The main representatives of the regional autonomy movements have seemed for the time being to accept the general legitimacy of the central state.

Monopoly on the
use of force

7

There is fundamental agreement about who qualifies as a citizen. Since 1952, all citizens have had the same rights, though many were de facto excluded from making use of them for many years. Since the first election of President Evo Morales in late 2005, the factual limits to citizenship as perceived by groups traditionally subject to discrimination (the indigenous majority, in particular) have been clearly reduced. The new 2009 constitution declares the state to be "plurinational." This departure from the mainstream model of the nation-state reflects the country's strong ethnic identities, but nevertheless stops short of calling acceptance of the Bolivian state into question. The new constitution has in fact increased identification with the state among the indigenous majority. At the same time, the new emphasis on the plurinational and indigenous character of the state has led to a certain alienation among non-indigenous sectors of society. In general, regional identities, especially in the Media Luna region, add to this relative distance vis-à-vis the central state.

State identity

9

Church and state are separated, and religious dogmas have no noteworthy influence on politics or law. The new 2009 constitution has eliminated the special status formerly granted to the Catholic Church. Under the Morales government, tensions between the state and the Catholic Church have risen, with the church bolstering its role as a religion-based interest group.

No interference of
religious dogmas
10

There are functional administrative structures in Bolivia. Although the state's physical infrastructure extends throughout the country, its practical administrative reach is not complete. According to World Bank Development Data for 2008, 86% of the Bolivian population has access to improved water sources, but only 25% has access to improved sanitation. Road infrastructure is considered to be relatively poor, according to the Global Competitiveness Report 2010 – 2011. The opposition has increasingly complained that “the state is absent in many regions,” especially with respect to law enforcement. The provision of judicial functions improved once the 2009 constitution gave indigenous justice systems a status equal to the state's, despite unresolved issues of jurisdiction and coordination with the ordinary system.

Basic
administration
7

2 | Political Participation

Political representatives are determined by general, free and fair elections. There is universal suffrage and the right to campaign for elective office exists. On the whole, elections are conducted properly, and continued voter registration efforts since the mid-1990s (especially in rural areas) have rendered their outcome even more representative. Reforms in 2004 – confirmed by the 2009 constitution – broke up the monopoly held by political parties and enabled civic groups (*agrupaciones ciudadanas*) and indigenous organizations to present their own candidates. Combined with the emergence of the MAS party, which is broadly perceived as representing the interests and values of the indigenous and poor majority of the population, these measures have significantly increased the number of ballots cast in elections (and referendums), thus extending the factual universality of suffrage. In response to irregularities in the voter registration process, the National Electoral Court (CNE) produced a new, biometrically based electoral roll in 2009. There have been allegations of instances of voter fraud (in rural areas) and the abuse of state resources, and criminal charges have been made against opposition politicians. Nevertheless, the results of elections and referendums are not questioned in principle. The 2009 constitution introduced the popular election of the highest judicial tribunals' members, and for parliamentary elections, establishes special electoral districts for indigenous minority groups in rural areas. Aside from elections, additional mechanisms of political participation are included (recalls, referendums, citizens' legislative initiatives, and direct participation by “organized civil society” in the design and oversight of public policies, for example). A 2010

Free and fair
elections
9

report by UNDP Bolivia confirms a general perception among Bolivians that the political inclusion of and participation by groups traditionally facing discrimination (the indigenous, women and the poor) has improved.

Elected rulers in principle have the effective power to govern. There are no nationwide veto powers or political enclaves. Under the Morales government, the clergy, landowners, business elites and external actors (e.g., the U.S. government and international financial institutions) have lost influence. In certain cases, regional bosses or mafia can limit the government's power to govern, as can massive social protests. Examples include instances of violent resistance by landowners to the implementation of agrarian reform, and the de facto influence wielded by organized crime related to the drug economy.

Effective power to govern

8

The freedoms of assembly and association are constitutionally guaranteed, and are not limited in principle. When faced with intense mass protests and insurgency, all of Bolivia's post-authoritarian governments have tended to declare a state of emergency, temporarily suspend political liberties and the guarantees of the rule of law, and send in the military. In general, the Morales government has been more reluctant to do so, and has most of the time refrained from enforcing the state's monopoly on force against protestors, even in the oppositional Media Luna region.

Association / assembly rights

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The freedoms of opinion and of the press are generally guaranteed. The private media (newspapers, TV and radio) are pluralistic, but tend to privilege opposition views. The role of state media – which has a pro-government bias – has increased. Tensions between the Morales government and the private media further increased during the period under review. A new anti-racism law, adopted in October 2010, was criticized by media owners, journalists and some international observers as an attempt to intimidate critics and as a violation of the freedom of the press, as the law allowed the imposition of economic sanctions on and the temporary suspension of licenses of media outlets publishing racist ideas. In January 2011, new regulations eliminated the law's vague wording and softened penalties, laying the ground for a restrictive interpretation of the law, according to Reporters Without Frontiers. In public statements, President Morales, his cabinet ministers and other political leaders have occasionally attacked "the media" (and specific media outlets). Local NGOs report increasing incidents of physical aggression against individual journalists, many of which have not led to successful prosecutions.

Freedom of expression

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3 | Rule of Law

Formally, the 2009 constitution envisions a clear-cut separation of powers, in particular between the three branches of the state that are to be elected in popular elections (executive, legislature, judiciary). The Electoral Organ is established as a fourth power, and vaguely defined civil-society rights to direct participation and

Separation of powers

6

social control introduce an additional type of (vertical) checks and balances. In actual practice, two factors at least temporarily limit the separation of powers. First, the transition to the new constitutional order is still underway, and the new branches of state (especially the judiciary) have yet to take shape. Second, given the broad popular support for President Morales and the MAS party, general elections in December 2009 resulted in a two-thirds majority in both chambers of the new parliament. In addition, the executive's respect for the relative autonomy of both the legislature and the judiciary is traditionally weak in Bolivia, and continues to be so under the Morales government, which has intervened in all spheres of government and society. At the moment, it is mainly vertical checks and balances – that is, subnational governments and social organizations – that control and balance the power of the central government.

The judiciary continues to be the weakest branch of the Bolivian government, with restricted independence. Under the Morales government, the situation has significantly deteriorated, but progress in the transition to a new constitutional order has led to gradual (if ambiguous) improvements. After a series of resignations leading to May 2009, both the Supreme Court and the Constitutional Tribunal were effectively paralyzed. In February 2010, President Morales appointed temporary judges to the Supreme Court, the Constitutional Tribunal and the Judicial Council. An operating judiciary was thus restored, but its independence is questionable. The opposition criticized the appointments (and the law that made them possible) as unconstitutional. It is hoped that the popular election of the highest judicial organs, scheduled for 2011, will increase the judiciary's independence. Whether the elected judges will actually make use of this independence, however, remains to be seen. An additional problem to be resolved concerns the jurisdictional boundaries and coordination between the ordinary state judicial system and the indigenous justice systems that gained equal status with the 2009 constitution. The rise of “parallel structures” with a number of incompatibilities and without normative priorities (e.g., in the case of women's rights) has made problems more difficult and time consuming. Finally, “traditional” problems such as the judiciary's administrative weakness, scarce resources, limited access for ordinary (poor) people, corruption and political influence persist.

Independent
judiciary

5

Corrupt officeholders are not systematically prosecuted, although the publication of corruption scandals by the media usually leads to dismissal and penalties. During the Morales presidency, the government and the judiciary have launched selective anti-corruption campaigns against current and former officeholders from opposition parties, but also against members of the MAS party and close collaborators of the president. Attempts to address the lack of transparency and the patronage structures behind the scandals, however, have been limited. The problem of conflicts of interest has not been addressed in any systematic way. The new constitution stipulates that anti-corruption laws can be applied retroactively, a rule that has

Prosecution of
office abuse

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