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ARGENTINA BETWEEN DEFAULT AND BRICS RELIABILITY

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Argentina has defaulted again, thirteen years after its last and catastrophic financial collapse (2001). At the time, its economy shrank by 11% in one year (2002) and inflation rose above 40%; now, however, things look quite different and the Argentine government, much more optimistic. What has happened? At least three factors can be singled out.

First, Argentina is in a stronger position and claims it has not defaulted. Dagong Global Credit Rating has in fact downgraded its foreign currency credit to D, but maintained the local currency rating at CCC, considering that Argentina is solvent in its local *pesos*. Buenos Aires's government was 'willing and able' to pay its creditors, but chose not to pay a tiny minority of hedge funds which had not accepted its debt restructuring plans (which were adopted in 2005 and 2010). Those hedge funds (also known as 'holdout creditors') are based in New York and rely on a ruling by a New York court. The amount of their credit is not high and an agreement might still be reached; so far, however, the government of Cristina Fernandez de Kirchner has refused to pay. Why is Argentina so bold and uncompromising?

Here a second factor comes in. US and IMF-backed financial capitalism has failed. Neoliberalism has col-

lapsed in the 'Great Recession' and IMF 'restructuring plans' have not worked, in Africa, Latin America, or Greece either. As the Nobel Prize economist, Joseph Stiglitz, has highlighted, the holdout creditors are an expression of a speculative, predatory capitalism, which has exploited and ruined poor Americans as well as people in other countries. Austerity recipes have lost credibility, and Argentina, which before the previous default had accepted an implausible 1:1 exchange rate between *peso* and dollar, is now well aware of it.

At the same time, the USA is currently weak and cannot enforce any payment on Argentina. Washington is dealing with huge problems in other world regions, from Eastern Europe to the Middle East, and currently has little to say on Argentina's debt. This is true also because an alternative has emerged: the BRICS system, which represents the third major 'factor' behind Argentina's attitude.

The recently founded BRICS (Brazil, Russia, India, China, and South Africa) Development Bank (Fortaleza Summit, 15-16 July) represents a real breakthrough towards a new world financial order. The Bank, which is endowed with a capital of 100 bn\$ and a pool of reserves of the same size, promises a model of development dif-



ferent from that of the IMF: conditions to borrowing countries will be less onerous, interest rates lower, and investments will target energy and infrastructure, that is, industries with a long-term strategic importance. Argentina was also a ‘special guest’ at the BRICS Summit, having been invited by Russia’s Foreign Secretary Lavrov.

Both President Xi and Vladimir Putin have toured Latin America in the days of the BRICS Summit. In Argentina, Putin met Cristina de Kirchner and agreed to build two nuclear energy plants. On 17 July, Presidents Xi and de Kirchner enhanced relations between Beijing and Buenos Aires from ‘strategic’ to ‘comprehensive strategic’ partnership. China is by now Argentina’s second trade partner, and the first one outside America (the biggest trade partner in fact being Brazil). This is highly significant, if we consider that Argentina is a country of largely European descent but neither the USA nor any EU country are currently among its main three commercial partners.

President Xi agreed on a 4.7 billion\$ loan from the China Development Bank to finance two dams in Patagonia, and a 2.1 billion\$ loan to help finance a railway transporting grains from the fields to sea ports. In addition, another deal was signed for a currency swap worth 11

billion\$. Argentina is a G-20 member and its partnership with China can be important also in enhancing relations between Beijing and other Latin American countries. This is crucial, also in the light of the China-Latin America and Caribbean Cooperation Plan (2015-2019), signed in Brazil by Xi and his South American counterparts.

Argentina feels safer and bolder also because it has found support in the BRICS group and China in particular. The country is dear to many Europeans because most of its inhabitants have European origins; among them, some six millions have French descent, three millions, German, and more than twenty millions have some Italian ancestor. Yet the European Union has neglected Buenos Aires and never proposed an alternative to the IMF-USA Washington Consensus. The BRICS and China are proposing something substantial: sustainable development, investments in energy, infrastructure, agriculture, manufacturing, and technology. This model has already proved successful in Africa and other Asian and Latin American countries. At the moment, it looks like the next *tango* will be with China, and not the former colonial powers, which have constantly and intentionally neglected South America’s development potential.