ARGENTINE CRISIS, IMF AND THE LIMITS OF NEO-LIBERAL GLOBALIZATION: A COMPARATIVE VIEW FROM TURKEY

Ziya Öni*  

October 2002- Revised Draft

The Argentine experiment of the 1990s attracted significant international attention as a model case of neo-liberal restructuring. The Turkish version of neo-liberalism had also been identified as a success case during its early stages in the mid-1980s. Subsequent crises in both countries, however, exposed the limitations of a model of economic growth based on short-term capital inflows and external debt. The present study aims to provide a critical appraisal of IMF advice in semi-peripheral settings in the age of capital account liberalization drawing on insights based on the comparative analysis of Argentine and Turkish experiences with neo-liberalism.

1. Introduction

Argentina emerged as one of the model cases of global neo-liberalism during the course of the 1990s. The country, perhaps more so than any other “emerging market” strictly conformed to IMF advice. Perhaps, only the case of Chile under Pinochet during the course of the 1970s would constitute an exception to this general proposition. Following the implementation of an extreme version of a neo-liberal program under the Presidency of Carlos Menem in the early 1990s, Argentina managed to recover from decades of instability and stagnation, achieving high rates of economic growth for the first time in the post-war period. Furthermore, inflation which had reached hyperinflationary proportions by the beginning of the decade, was reduced to single digit levels over a remarkably short space of time. The Argentine model, however, started to lose momentum towards the end of the decade. Finally, this early loss of momentum was translated into a complete collapse in 2001 that marked the end of the “Argentine miracle”. The collapse of the economy, in turn, raised deep question marks concerning the longer-term viability of a model of growth based on premature exposure
to the forces of financial globalization and relentless commitment to the logic of the free market model.

The objectives of the present study are twofold. The first part of the analysis, attempts to highlight some of the underlying limitations as well as the achievements of the Argentine neo-liberal restructuring in the context of the 1990s and the role performed by the IMF in this process. A central thesis is that the IMF prescriptions have contributed both to the early success and the subsequent collapse of the Argentine model. For a balanced perspective, attention ought to be focused on the internal-structural weaknesses of the Argentine political economy as well as the role of external agencies such as the IMF. Stated somewhat differently, it would be inappropriate to place the blame single-mindedly on the IMF although the institution must clearly share a significant part of the responsibility for outbreak of the 2001 crisis. The second party of the aims to identify some of the key similarities and differences between the Argentine and the Turkish experiences, the latter constituting another striking case of recurrent crises in the context of neo-liberal restructuring and early exposure to vagaries of financial globalization. The objective of the comparative exercise is to draw broader lessons for countries located in the semi-periphery of the world economy.

2. The Argentine Development Experience in Retrospect: Why is the Argentine Experience Interesting From a Comparative Perspective?

Argentina was a rich agricultural exporter during the 1930s. However, her post-war development experience has been quite disappointing to say the least. Argentina recorded surprisingly low rates of economic growth in the presence of a prolonged import-substitution strategy implemented in the presence of unusually severe income distributional conflicts involving key segments of society. A strong pro-ISI coalition involving inward-oriented industrialists and organized labor were confronted with an equally strong anti-ISI coalition a major component of which was a class of large landowners. The severe distributional
conflicts noted had major negative ramifications for economic growth for most of the post-war period. Argentina’s pace of industrial transformation, as a result, lagged significantly behind the two leading Latin American NICs, namely Brazil and Mexico, with the qualification that Argentina displayed a more egalitarian pattern of income distribution compared with these two cases representing extreme cases of relative income inequality.1

Starting out from a relatively high base of development, however, makes a difference. In spite of relatively slow growth in the post-war period, the level of development recorded by Argentina should not be underestimated.2 The size of the country’s GDP is comparable to that of Turkey, although her per capita income is substantially higher due to smaller population size.

Another interesting feature of the Argentine experience is that the country has lived through extreme situations both in economic and political terms, compared with the pattern of “stable instability” that appears to be a characteristic of the post-war Turkish development experience. Argentina experienced severe hyperinflation as well as an extended period of military government over a period of seventeen years (between 1966 and 1983). Argentina experienced a transition to democracy in 1983 under a presidential system. Carlos Menem was elected as the President in 1987 and played an instrumental role in carrying out neo-liberal reforms. In retrospect, Argentina’s reform experience is of shorter duration but of much greater intensity compared with the Turkish experience.3

Focusing more specifically on the nature of neo-liberal restructuring, several features of the Argentine experience renders it rather interesting from a comparative standpoint. Certainly, it constituted one of the most drastic and far-reaching experiments in neo-liberalism during the recent era. Inflation has been reduced from hyper-inflation to single digit inflation. Following a decade of stagnation in the 1980s and generally slow growth throughout the post-war period, unusually rapid growth has been generated during the course of the 1990s. Real
GDP has grown at an annual rate of 8 percent between 1991 and 1995 and 6 percent between 1996 and 1998\textsuperscript{4}.

One of the features of the Argentine experiment that attracted most international attention was the convertibility plan which was basically a currency board system. A major accomplishment of Argentina’s convertibility plan involved the attainment of price stability. Hyper-inflationary pressures had been taken under control within the first couple of years of program implementation, with inflation declining to single digit figures in subsequent years and becoming even negative in 1999. Moving beyond the immediate success on the inflation front, Argentina has managed to implement a massive privatization program, again over a remarkably short period of time. By the mid-1990s, all public utilities and public industrial enterprises had been privatized. Privatization revenues have been utilized as part of the government’s overall macroeconomic policy package to counter fiscal and current account imbalances and contributed to the achievement of a fixed exchange rate.

Macroeconomic stability and massive privatization, as well as drastic trade and capital account liberalization, have been instrumental in generating large inflows of foreign capital. These vast inflows naturally made a major contribution to the process of rapid economic growth. Yet, the dependence of growth primarily on external forces as opposed to the competitive strength of the domestic economy highlighted the inherent fragility of the growth dynamic that appeared to be associated with the IMF-induced neo-liberal reforms. Given the fragile nature of economic growth, it was perhaps not paradoxical that in spite of the favorable developments noted a major crisis could not be averted at the beginning of the new decade.
3. The Strengths and Drawbacks of the Argentine Convertibility Plan

The Convertibility Plan and its institutional counterpart, the Currency Board, were implemented by the Argentine authorities through close collaboration with the IMF. The plan represented an extreme version of a fixed exchange rate system. The aim of the plan was to peg the Argentine peso to the US dollar on a one to one basis to restore confidence and eliminate hyper-inflation. The underlying logic was the following. In the absence of an extreme external anchor such as the convertibility plan, it would be impossible to implement a stabilization program which would have any credibility, given successive stabilization failures in the past. The plan effectively eliminated the power of governments to finance budget deficits through the Central Bank and restricted new money creation to the inflow of foreign exchange. To maintain the fixed exchange rate, the currency board maintained dollar reserves and could not increase the supply of pesos without an equivalent increase in dollars that were under its possession.

Clearly, the success of the plan rested on strict fiscal and monetary discipline. In sharp contrast to their past behavior, the Argentine governments in the 1990s were able to display the kind of commitment necessary to maintain strict discipline over monetary and fiscal policy. The new policy attracted broad public support given the abnormally high inflation rates experienced during the 1980s and their widely felt negative consequences. Furthermore, the success of the program in concrete terms in curbing hyper-inflation, creating the infrastructure for large inflows of capital and rapid growth, helped to maintain this initial base of broad public support over a considerable period. Hence, by the second half of the 1990s, Argentina from a distance appeared to have achieved a decisive break with her populist past, characterized by economic stagnation and endemic instability.
Yet, from a longer-term perspective, the immediate advantages of the convertibility plan were counterbalanced by its longer-term disadvantages. Inflation had been eliminated by the late 1990s at the expense of a complete loss of flexibility in the use of monetary policy. As a result, the authorities could not respond to the emergence of a recession in the late 1990s via an expansion in the money supply. Even worse, as the economy continued on a downward slide and inflows of dollars slowed down, the one to one rule involving the peso and the US dollar placed a further restriction on the use of monetary policy, injecting a deflationary bias to the economy.

Furthermore, the underlying rigidity of the convertibility plan rendered the Argentine economy particularly vulnerable to external shocks which also played an important role in precipitating the eventual collapse in 2001. In the late 1990s, the US dollar appreciated against other currencies which also meant that peso also appreciated undermining demand for Argentina’s exports. Similarly, due to the devaluation of the Brazilian real, following the outbreak of a crisis in Brazil in 1999, the peso became severely overvalued in real terms. Considering that Brazil is Argentina’s leading trading partner, the overvaluation of the peso with respect to the real constituted a serious blow to the competitiveness of Argentine exports, emerging as a major contributor to the ensuing crisis. The Argentine experience illustrates clearly that current account performance and competitiveness of exports matter. Neglecting these elements, in the presence of large inflows of capital and buoyant international reserves, may mean a clear invitation to a crisis. Indeed, this problem has not been unique to Argentina. It has been very much in evidence in the cases of Turkey and other “emerging markets” in the era of financial globalization.

Hitherto, the explanation of the Argentine crisis focused primarily on the negative implications of conforming too rigidly to the principles of the convertibility plan, particularly in the presence of unfavorable external developments. A complete account, however, needs to take into consideration the fact that other elements were also involved. In retrospect, the privatization program in Argentina played a role which was somewhat similar to the role performed by the convertibility plan. Its impact was positive in the early stages; yet, it became progressively a source of disequilibrium over time.

As emphasized earlier, Argentina experienced one of the world’s most rapid and far-reaching privatization programs, with the total receipts amounting to US $14.2 billion for the period 1991-1996. Privatization receipts served an important function in terms of counteracting fiscal and current account imbalances and maintaining a fixed exchange rate. Privatization revenues, however, due not constitute a continuous source of government revenue. By the mid-1990s, Argentina had run out of assets to sell. The end of the privatization program, in turn, had two major ramifications. Firstly, Argentina could no longer attract significant inflows of long-term foreign direct investment. Consequently, she had to resort to portfolio capital to sustain the momentum of capital inflows. Secondly, it became progressively more difficult to maintain fiscal equilibrium in the absence of large privatization revenues.

During the early 1990s, the positive signals provided by the opening up of the economy, the privatization drive as well as the high interest rates prevailing at home relative to the rates in the US helped to attract foreign capital on a massive scale to the Argentine economy. The currency board experiment helped to reduce risks and contributed further to the process of generating large inflows of capital. The inflows concerned from the US and Europe
gave the depressed economy a strong initial boost. Although foreign direct investment slackened by the mid-1990s, parallel to the decline in state assets to be privatized, inflows of portfolio capital were maintained at high levels notably through the purchase of Argentine bonds denominated in dollars. Pleased with this strategy, the IMF was ready to protect it with back-up credits taking into account the inherent volatility of portfolio capital. This line of defense worked during the 1995-1996 tequila crises, but repeated injections of emergency credits failed to revive private capital inflows or the economy following the Brazilian crisis of 1998. By the end of the decade the strategy appeared to have reached a dead end.

Looking back at the Argentine experience, the good times of the mid-1990s were built on weak foundations. Economic growth during the period, while substantial, appears to have been largely due to accumulation of international debt, a domestic consumption boom associated with a large increase in the share of imports in GNP (from 12.6 percent in 1990 to 23.3 percent in 1998 and 22.2 percent in 2000) and once for all injections of government revenues from the sales of state enterprises. It was not a paradox, therefore, that by the end of the decade, things began to fall apart.

Argentina was able to protect itself from the negative repercussions of the Mexican Crisis of December 1994. Yet, she was not equally successful in terms of escaping from the severe impact of the Asian Crisis of 1997. Moreover, the drastic devaluation of the Brazilian real in 1999, with the constraints imposed on the peso, left Argentine exports vastly more expensive than those of her neighbor. The slowdown in economic activity clearly aggravated the situation. Reiterating the points made earlier, lower export earnings have limited the country’s ability to earn the foreign exchange needed to pay for the dollar- denominated debts. Moreover, as the US dollar rose relative to Argentina’s chief trading partners, the peso became severely overvalued. Badly squeezed, industrial exports declined as less expensive Asian consumer goods replaced domestic production. Declining industrial activity and export
revenues, in turn, have denied the government the cash needed to balance budgets, in an environment characterized by a steady rise in unemployment as well as bankruptcies among small and medium industrial firms.

At this point, it is important to draw attention to the social and distributional impact of neo-liberal restructuring. A wave of privatizations during Menem’s Presidency had already resulted in a significant increase in unemployment. Considering the fact that many of the privatized companies were utilities, prices for such basic services as electricity and telephones registered massive increases contributing to an intensification of income inequality. Furthermore, as Argentina’s recession deepened after 1999, the collapse of domestic demand resulted in additional bankruptcies and unemployment. In such an environment, it became increasingly difficult to sustain broad social and political support for the overall program and particularly for the component involving fiscal discipline.

In the context of a deteriorating economy, the magnitude of Argentina’s debt problem manifested itself in an even more vivid fashion. The convertibility plan allowed the government to finance its budget deficit through issuing debt instruments in domestic and international capital markets. The downward spiral that the Argentine economy experienced by the end of the decade magnified the country’s debt burden. The decline in tax revenues also played an instrumental role in this process. Floating more dollar denominated bonds to finance rising current account deficits and to service foreign debt has resulted in a “debt trap”. The heavy terms on which bonds had to be sold each period worsened the next period’s debt servicing requirements. Indeed, incomplete fiscal stabilization and mounting problems of public debt had emerged as central issues of concern during the years of slow growth prior to the onset of the crisis. The IMF in this setting made it clear that it was not inclined to bail Argentina out by making an advance payment on a previously agreed loan which would allow her to make her next debt payment.
During the course of 2001 the Argentine recession became progressively deeper. Although the IMF was willing to pump in additional funds, it provided these funds on the condition that the Argentine government would reduce her budget deficit completely. With the economy in recession and tax revenues declining drastically, the only way to balance the budget was to engineer a massive cut in government spending. In late July, the Congress approved a “zero-deficit rule” that essentially established that the public sector would not support more than it collected, with expenditures being adjusted every month to achieve an overall deficit of zero. In effect, the rule subordinated wages and pension payments to debt servicing and thus signaled an impressive political commitment to the program. However, the decision resulted in massive protests and social resistance that effectively precipitated the Argentine crisis. At the same time, as the worsening crisis raised fears that the peso would be devalued, the government stepped in to prevent the public from trading their pesos for dollars, by limiting withdrawals of bank deposits. This, in turn, generated yet another wave of social protests undermining investor confidence even further.\(^7\)

In explaining financial crises in the semi-periphery a clear distinction needs to be introduced between fundamental causes and triggering mechanisms. Fundamental causes create an environment which is clearly prone to a crisis. Triggering mechanisms, in turn, typically involve a domestic political disturbance that casts doubt over the prospects of fiscal adjustment and economic adjustment in general forming the basis of a speculative attack which cannot be counteracted by higher interest rates or reserve depletion. In the Argentine context, it was the disintegration of support for the fiscal cuts demanded by the President De La Rua’s (successor to Menem) economy minister Jose Luis Machinea and his politically short-lived successor, Roberto Lopez-Murphy that triggered the crisis. The Argentine crisis exposed in a rather striking fashion the social and political limits to neo-liberal globalization.
and the associated IMF-style adjustment programs that exist in many countries located in the semi-periphery of the world economy.

5. Argentina and Turkey: Two Neo-liberal Experiments in Comparative Perspective

Argentina and Turkey provide an interesting base for comparison both historically and in the context of neo-liberal reforms. Relatively large middle income economies, both have achieved considerable industrial development in the course of the twentieth century. Yet, neither of them has managed to replicate the kind of performance displayed by Asian NICs such as South Korea and Taiwan that would them to reach developed country standards over a reasonable period of time. Clearly they are not successful catch-up stories. Turkey, starting from a lower base in the post-war period has managed to generate higher rates of growth than Argentina, at least until the 1990s. Given her larger population size, however, her per capita income performance failed to match Argentine standards. Some of the key macroeconomic indicators for the two countries concerned are displayed in Table I.

Both countries have undergone major neo-liberal reforms which have typically been implemented in the aftermath of endemic instability or crisis. Indeed, the development experiences of both nations are characterized by prolonged periods of import-substitution. In the Turkish case, the origins of neo-liberal reforms may be traced to an earlier date, namely 1980. Neo-liberal reforms have been in progress in Turkey over a period of two decades. Capital account liberalization, however, occurred at a relatively advanced stage of the program in 1989. Argentina’s encounter with neo-liberalism has been somewhat later and has been accomplished in a far more radical fashion over a short period of time in the context of the 1990s. Argentine experiment involved a shock-treatment approach whilst a gradualist approach would be a more appropriate characterization of the Turkish experience. Both
countries had the misfortune of experiencing a major financial crisis following their exposure to financial globalization, in 2001, although this was not the first case for Turkey since she had already experienced a crisis back in 1994. The IMF, not surprisingly, emerged as the central actor and the key external anchor in the neo-liberal transformation of the two countries. A cursory glance at economic performance suggests that Turkey was more successful during the 1980s, whilst, Argentina, at least well into the late 1990s, recorded superior economic performance.\(^{10}\)

Moving beyond these preliminary observations, one is able to detect some interesting similarities as well as some striking differences in the nature of their neo-liberal experiments. A broad comparison of the neo-liberal trajectories in the countries reveals the following parallel features. It is interesting to observe, for example, that neither of the two countries managed to achieve sustained economic growth over long periods of time. Whilst both countries experienced post-stabilization booms and a surge in exports once their economies had been stabilized and recovered from crisis, these initial booms could not be sustained. Furthermore, both displayed similar vulnerabilities prior to the outbreak of their major financial crises. Fiscal consolidation was incomplete. Political support for government spending cuts was fragile and fragmented. Exchange rate anchor for disinflation undermined external competitiveness. Export growth was certainly inadequate. Financing the current account at the prevailing exchange rates and levels of demand required substantial capital inflows resulting in a significant increase in external indebtedness. The pattern of debt-led growth was extremely sensitive to exogenous shocks and deteriorating external conditions. Indeed, in the most recent context, the Asian and Russian crisis exercised a negative influence over the economies of both countries. In addition, Argentina was negatively affected by the Brazilian devaluation, whilst Turkey’s performance deteriorated as a result of the earthquake, higher oil prices and the rise of the dollar in 2000-2001.
Extending the parallels even further, the respective 2001 crises in the two countries appeared to display some common fundamental causes although the mechanisms that actually triggered the crises naturally differed\textsuperscript{11}. A central element in this context was a pattern of fragile growth based on heavy dependence on short-term external capital inflows in the absence of adequate domestic resource mobilization. Yet another common element involved the weakness of the real economy and loss of export competitiveness, in part, due to the risks inherent in exchange rate based stabilization strategies. The emergence of large current account deficits with rapid surge in imports and stagnation of exports provided negative signals for the future and undermined investor confidence which, in turn, helped to precipitate the respective crises. Finally, both countries experienced difficulties in implementing and sustaining fiscal reform. The fiscal problem reemerged in Argentina following the completion of the privatization program. The strong federal structure of the Argentine government and the relative autonomy enjoyed by municipal authorities made it increasingly difficult for the central government to impose fiscal discipline\textsuperscript{12}.

The presence of common elements should not lead us to overlook one fundamental element that sharply distinguished the two cases in practice. It is unambiguously the case that Argentina conformed much more vigorously to IMF advice and the basic neo-liberal principles. In a sense Argentina was a better student of the IMF than Turkey ever was over a longer time-span of economic reforms. Furthermore, the Argentine reform process was far more drastic and implemented over a much shorter period. Consequently, at least for a certain time, Argentina was able to capitalize on the benefits of neo-liberal reforms more fully. Early success in terms of eliminating hyperinflation was instrumental in attracting large amounts of long-term capital (Table I). The massive privatization program implemented over a surprisingly short space of time also made a major contribution in this respect. One should also note that the kind of exchange rate based stabilization program implemented in Argentina
was a much stricter version in comparison with the rather soft version of such programs implemented in the Turkish case.  

Incomplete stabilization has been a perennial feature of the Turkish neo-liberal experiment. The magnitude of fiscal instability magnified in the context of the 1990s. In the presence of incomplete stabilization, inflation remained at chronic levels and privatization proved to be a particularly protracted process. In contrast to the virtuous cycle experienced by Argentina in the early 1990s, Turkey found itself trapped in a vicious cycle of large fiscal deficits, high inflation and limited privatization. It was not a paradox that Turkey could only attract minimal amounts of long-term foreign capital.

Turning briefly to the political realm, some striking commonalities may be identified. In both contexts, reform was instituted in top-down fashion in close collaboration with external actors such as the IMF and the World Bank. A presidential or quasi-presidential system and the presence of a charismatic leader played a key role in this process (Menem as the President in Argentina during the period 1989-1997 and Turgut Özal, in his quasi-presidential role in Turkey during 1980-1989 before he actually became the President in 1989 in an otherwise predominantly parliamentary system). The presence of a charismatic leader was of critical importance in terms of legitimizing and generating broad public support for the program as well as overcoming resistance from key elements of the anti-reform coalition. The Argentine experience in this context is even more striking in the sense that a drastic reform process was implemented in a democratic environment with the explicit support of organized labor, an observation that again seems to highlight the crucial role played by President Menem in terms of establishing a broad-based pro-reform coalition in Argentina.

What is important to emphasize, however, is that once the charismatic leader figure disappeared, both countries experienced major difficulties in institutionalizing the reform process and sustaining broad based support for reform in the presence of high income
inequality (Table I) and severe distributonal conflicts. Indeed, the political environment of the pre-Menem era of 1983-1989 under the Presidency of Raul Alfonsin and the post Menem era after 1999 under the Presidency of De La Rua look suspiciously similar to the environment of political fragmentation and distributonal stalemate associated with Turkey in the 1990s, with negative consequences for economic stability and long-term growth 15.

6. Critical Thoughts on the Role of the IMF Based on Lessons of Comparative Analysis

The Argentine neo-liberal experiment, which in spite of its early success ended up with a major crisis in 2001, raises some deep question marks concerning the role of the IMF in semi-peripheral settings in the era of financial globalization and capital account openness. The key point to reemphasize in this context is that Argentina more than any other emerging market adhered to IMF advice and applied the neo-liberal logic in a vigorous and consistent manner. Moreover, unlike the Chilean experiment of the 1970s, the Argentine experiment took place in the context of democratic institutions. In evaluating the Turkish case per se, in contrast, there is always the escape route that the authorities have failed to implement the program fully over the course of two decades. The fact that common elements exist in the two cases with one close to full-implementation, at a least over a considerable time period, and the other characterized by significant but partial implementation allows us to make some general observations and advance certain criticisms of the IMF, the key institution involved in the process of neo-liberal restructuring in an era of open capital account regimes.

A central message concerns the risks associated with exchange rate based disinflation strategies. Both Argentina and Turkey pegged their exchange rates rigidly in the first case, within a band in the second, to bring down inflation. To a certain extent, this policy was justified in the sense that stopping high inflation requires solving credibility and co-ordination problems and pegging the exchange rate is an obvious way of ensuring that the program is
credible. It is also a way of ensuring that difficult measures involving fiscal and monetary discipline can be implemented in the presence of a powerful external anchor. The accumulating evidence, clearly verified by the Argentine and the Turkish cases, however, is that, in the absence of measures designed to increase domestic capacity and export competitiveness, exchange rate based stabilization appears to result in stability in the short-run at the expense of stability in the future.

To lend credibility to her stabilization program, Argentina adopted a dollar based currency board. Whilst this maximized the credibility of the commitment to price stability in the short-run, it also exposed the economy to fluctuations in the relative value of major currencies. In Turkey, the crawling peg adopted in conjunction with the IMF limited the lira’s devaluation to 15 percent a year. The “exit strategy” was that in July 2001, eighteen months after the adoption of crawling peg, the country would begin widening the systematic bands around the central parity. This was suggested as a means of buying time for strengthening the banking system and getting the banks accustomed to the environment of greater exchange rate flexibility. But the downfall of the strategy was that the currency peg created moral hazard for both banks and government. The incentive to strengthen both balance sheets and supervision was diminished. In short, what is important for our purposes is that even a soft version of a pegged exchange rate strategy caused major problems.

A second major message concerns the fact that achieving a significant surplus on the primary balance of fiscal accounts fails to insulate emerging market economies from crises in the presence of excessive short-term debt that needs to be refunded. Both Argentina and Turkey in the second quarter of 2001 had undertaken concrete steps in the direction of reform, shifting their primary deficit to surplus. However, these steps were not sufficient to protect them from the risk of a possible crisis considering that both had substantial amounts of short-term debt that had to be refunded.
This brings us to a deeper problem namely that the pattern of growth generated on the basis of IMF-induced neo-liberal restructuring is a pattern that is based heavily on external debt and inflows of capital. A pattern of growth that rests heavily on external debt becomes a serious shortcoming in so far as the IMF fails to address two central problems of semi-peripheral economies, the need to raise the competitiveness of the real economy and the problem of domestic resource mobilization 16. The lack of competitiveness of the real economy, in general, and of the sector, in particular, as well as the extraordinarily low domestic savings ratios were at the heart of the Argentine crisis of 2001 (Table I). Similar problems were evident in the Turkish case 17. Consequently, neither of the two countries was in a position to overcome the debt trap which emerged as a result of a pattern of growth based disproportionately on foreign borrowing and inflows of external capital. Not surprisingly, this pattern of growth also rendered the economies concerned particularly vulnerable to external shocks with extremely negative ramifications.

This observation clearly suggests that countries need extend their horizons beyond the standard IMF advice and develop their domestic capacities in key areas such as building research and development capabilities and human capital formation which would allow them to address the question of low competitiveness. Perhaps, the relatively swift recovery of South Korea from its first ever major crisis in 1997 is not that surprising after all given the strength of her real economy and her unusually high domestic saving capacity 18. Clearly, these are difficult objectives to achieve in an environment of fiscal cuts a key portion which fall on public investment. Unless such problems are effectively addressed, however, countries like Argentina and Turkey will find themselves trapped in a low growth-high inequality equilibrium which will be increasingly difficult to overcome.

Moving one step further, the Argentine and Turkish cases clearly illustrate the dangers of premature capital account liberalization in an environment where highly volatile
and unregulated short-term capital flows is posing a major threat to long-term growth prospects, especially in the context of the weakly regulated financial systems of countries in the semi-periphery. Whilst the IMF has been promoting regulatory reforms aiming to strengthen domestic banking and financial systems, it has so far been quite impervious to recommendations involving controls on short-term capital flows both at the national and global levels which would help to insulate the countries concerned from the risks of a major financial crisis. Hence, a major criticism that can be leveled against the IMF is that the institution has been refraining from dealing with the systemic causes of financial crisis, the negative consequences of which fall disproportionately on countries of the semi-periphery.19

Furthermore, the IMF appears to severely underestimate the political and institutional problems associated with the construction of strong regulatory institutions needed to cope with the pressures of financial globalization.20

Finally, the cases investigated clearly illustrate the dangers of implementing programs which fail to take income distributional considerations into account. IMF programs typically underestimate or simply ignore the social and distributional impact of neo-liberal restructuring. The Argentine experience in 2001 and beyond clearly exposed the dangers of such an omission as manifested vividly by massive protests against government expenditure cuts. Turkey has so far been more fortunate in terms of avoiding the kind of massive social and political dislocation that has been the characteristic of the recent Argentine situation. This has, in part, been due to the strength of her informal systems or networks of social support. Turkey has also been more fortunate in terms receiving more favorable treatment from the IMF. This has been to a large extent due to her geo-strategic significance from the point of view of US foreign policy interests which appear to have been accentuated following the attacks of September 11. Turkey also benefits from a second external anchor, namely the prospect for EU membership and its associated material benefit, an anchor which is largely
absent in the Argentine context. Argentina has recently participated in regional initiatives such as LAFTA. Yet, LAFTA, composed of capital short states, is unlikely to play the role of a powerful external anchor such as the EU. Such considerations alone, however, should not lead to excessive optimism. Clearly, if economic growth fails to recover and achieves a certain momentum over a certain period of time, it would not be surprising to observe the kind of social protests and dislocation in Turkey that has been such an integral element of the recent Argentine experience.

7. Concluding Observations

A rich agricultural country in the early part of the twentieth century, the development performance of Argentina has been rather unimpressive even by Latin American standards. What renders the Argentine case rather unique, viewed from the perspective of other semi-peripheral states like Turkey, is that the country has lived through the extremes of hyper-inflation as well as extended periods of economic stagnation and military rule. Given this background, it was perhaps not a paradox that Argentina would also experience one of the most drastic experiences of neo-liberal restructuring in the recent era under the auspices of the IMF. What made the Argentine case even more interesting was that the experiment has been conducted within the parameters of a nascent democratic regime. Turkey in the post-war period has also experienced recurrent economic crises and periodic breakdowns of democratic rule. It is fair to say, however, that the Turkish experience has been less extreme judged by Argentine standards. Economic growth has been higher. Inflation has not reached hyperinflationary proportions. Periods of military rule has been comparatively short-lived. Turkey’s neo-liberal experiment, whilst it exhibited many of the features, has been less drastic and extended over a longer time span compared with the Argentine version.

Considering its extreme nature and close conformity to text-book principles, Argentine experience is quite illuminating in terms of illustrating both the potential and limits
of neo-liberal restructuring in the age of open capital account regimes. From the present perspective, the Argentine experience has exposed in a rather dramatic fashion the inherent fragility of a development strategy which has been based to an excessive degree on inflows of capital and foreign borrowing. This observation seems to be supported by the Turkish experience, in spite of the fact that the neo-liberal model has not been implemented with the same degree of consistency and vigor in this particular case. The recent Argentine crisis has also highlighted the fundamental social and political challenges that confront radical models of neo-liberal restructuring in the semi-periphery.

At this point, we need to be fair in our assessment of the IMF. The IMF has typically been involved in problematic rather than inherently successful cases. These problematic countries, in turn, have been characterized by deep deficiencies in their domestic political and institutional environments. Hence, it would be misleading to attribute to the IMF all the responsibility for the outbreak of the recent financial crises in Argentina and Turkey as well as for similar crises that have taken place in other parts of the periphery in the context of the 1990s.

Some of the deeper implications of our comparative analysis are the following. Strength of the real economy matters and long-term competitiveness of exports is critical in this context. However, these issues are not directly addressed by IMF-style programs. Indeed, the IMF seems to be primarily concerned with strengthening the regulatory capacities of the semi-peripheral states whilst essentially ignoring or under-emphasizing the developmental roles and capacities of such states. For example, the build-up of research and development capacity, crucial from the point of view of long-term economic growth, receives little or no attention in the context of such programs. Given the limitations of the IMF programs, domestic authorities need to be concerned with growth based on competitiveness in order to render debt repayment sustainable and reduce the risks of speculative attacks in the future.
Similarly, the authorities concerned ought to pay greater attention to domestic resource mobilization. There should be a clear recognition that an element common to countries that find themselves in a debt trap involves a striking deficiency in domestic savings capacity. At this point one is confronted with a serious dilemma: do the types of states under investigation possess the political and institutional capacity as well as the fiscal resources needed to extend their horizons beyond the confines of a traditional IMF scenario? Finally, it is clear that programs which fail to take social and distributional consequences and pay insufficient attention to the problem of building broad based public support for reform are unlikely to generate progress on a sustained basis.

* Professor of International Relations, Koç University, Istanbul, Turkey. Valuable comments by Fikret *enses and Hakan Tunç on earlier version of the paper and the able assistance provided by Doğan Ajşk and Evren Tok are gratefully acknowledged.

1 The average growth rates for Argentina, Brazil and Mexico for the period 1950-1995 were recorded as 2.2 percent, 5.1 percent, and 4.6 percent respectively. The differences in the growth rates observed become even more striking if one takes into account the fact that both Brazil and Mexico are countries with much population size than Argentina. Source: Fajnzylber and Leiderman (2000). The slow growth rate, in turn, was reflected in lower share of manufactured exports as a share of total merchandise exports as well as a lower ratio of high technology exports to total manufactured exports. Argentina’s share in the first category according to the latest information available emerged as 32 percent, whereas the corresponding figures for Brazil and Mexico were established as 59 and 83 percent respectively. Similarly, in the second category Argentina’s share was only 9 percent as compared with a share of 19 percent for Brazil and 22 percent for Mexico. Source: World Bank (2002). In terms of relative inequality, however, Argentina’s performance appears to be better than its two Latin competitors. Argentina’s Gini coefficient for the year 1996 was recorded as 0.47. The corresponding figures for Brazil and Mexico for the same year were estimated as 0.59 and 0.52 respectively. Source: Szekely and Hilgert (1999).

2 For a powerful analysis of Argentine development experience characterized by pervasive political instability, severe distributional conflicts and a paradoxical pattern of prolonged stagnation given the country’s rich historical heritage, see Pareto-Ramos (1992).


5 On the positive and negative features of the Argentine convertibility plan, see Baer et al. (2002) and Eichengreen (2001).

6 For critical appraisals of the negative income distributional consequences of Argentine neo-liberalism during the 1990s, see Teubel (2000-2001) and Lewis (1999). For critical appraisals of the Argentine privatization experiment, see Azpiazu and Vispo (1994) and Calvert (1996). Various appraisals of Argentine privatization experience suggest that policy makers did not pay any attention to the problem of regulating monopoly power in the post-privatization era. Argentine experience clearly illustrated the fact that in the absence of competitive pressures mass privatization is not necessarily welfare-enhancing privatization.


8 For an informative and yet narrowly based comparative analysis of the Argentine and Turkish crises, see Eichengreen (2001).
Argentina’s GDP per capita was $1013 in 1950, a figure which was considerably higher than Brazil ($309) and Mexico ($282). Source: Cardoso and Helwege (1992) p.25. Turkey’s per capita income in 1950 was even lower ($166) than Argentina’s two principal Latin counterparts. Yet, Turkey’s average GNP growth rate of 5.7 percent for the 1947-1990 period was significantly higher than Argentina (see footnote 1). Source: Owen and Pamuk (1998) p.251.

For critical assessments of Turkish neo-liberal experience during the 1980s and the 1990s, see Öniº (1998) and Alper and Öniº (2003).

In fact Turkey experienced two consecutive crises in the most recent era which occurred in November 2000 and February 2001. The twin crises are interrelated and many commentators tend to refer to the two crises as parts of a single crisis. For critical overviews of the 2000-2001 crises in Turkey, see Akyüz and Boratav (2001), Alper (2001), Alper and Öniº (2002), Özatay and Sak (2002) and Yeldan (2001).

On the federal structure of the Argentine government, see Gibson and Calvo (2000). On the difficulties posed by fiscal federalism for budgetary discipline, see Mussa (2002).

To be fair to the IMF, however, one should also highlight the domestic origins of the strict convertibility plan in the Argentine context. It has been convincingly argued that Domingho Cavallo, the Minister of the Economy during the Menem era and the architect of the reform program, should bear part of the responsibility for the kind of the convertibility plan experiment engineered in Argentina. Cavallo clearly believed in the absence of a powerful and rigid external anchor, the commitment to the program would fade away after a short period. See Starr (1997) and Palermo and Collins (1998) in this context. There is no indication, however, that the IMF opposed the Cavallo Plan and pressed for a softer and more flexible convertibility program.

Both countries, during the more successful phases of their neo-liberal restructuring, enjoyed significant concentration of executive power. Turkey had a military regime during 1980-1983, followed by a limited transition to parliamentary democracy in November 1983, instead the same year as Argentina’s transition democracy after an extended period of military rule. Turkey’s full transition to democracy occurred in November 1987. Turgut Özal, however, was the key figure in the context of the Turkish neo-liberal experiment throughout the 1980-1989 period, initially as the Minister responsible for the economy during 1980-1982 and subsequently as the Prime Minister between 1983-1989 period. Özal clearly benefited from the highly concentrated nature of the executive power up until 1987. Indeed, his major aim was to establish a presidential system in Turkey. What he had in mind as he occupied the presidential office during 1989-1993 period was to institute a kind of Latin American presidential system without strong checks and balances very much the type of system that Carlos Menem was able to capitalize on in the Argentine setting. He was not able to accomplish this objective, however, given Turkey’s strong parliamentary traditions.


For a further elaboration of this line of reasoning, see Alper and Öniº (2002).

Other scholars have also emphasized lack of competitiveness as a major factor in the Argentine context. See Rodrik (2002) and Yentürk (2002). Broad macroeconomic evidence seems to support these observations not only for Argentina but also for the Turkish case. The rankings reported in the Global Competitiveness Report of 2001-2002 published by the Global Competitiveness Forum are quite illuminating in this context. The rankings reported are based on the “growth competitiveness index” for 2001 with the survey covering 75 countries. Both Argentina and Turkey emerge in the bottom half of the table with their rankings established as 49th and 54th respectively. Global Competitiveness Report of 2001-2002 is available at http://www.wcforum.org. Yet another indicator of export competitiveness involves the high technology content of manufactured exports. The figures available for 1997 suggest that exports based on high technology constitute a small proportion of total manufactured exports with the relevant figures emerging as 5 percent for Argentina and 5 percent for Turkey. These rather aggregate figures may again be considered as broader indicators weak export competitiveness. The comparable figures for Malaysia and Mexico are 59 percent and 22 percent respectively. The information concerned has been obtained from World Bank (2003) p.240 - 241.

For an analysis that emphasizes the legacy of the developmental state and the strength of the real economy in South Korea’s relatively smooth recovery from the 1997 crisis, see Erdoºdu (2002).

For criticisms centered on the inability of the IMF to deal with the systemic causes of financial crises experienced in the semi-periphery coupled with its inability to play a proper global regulatory role, see Harris (1999) and Stiglitz (2002).

Major problems exist in terms of creating effective regulatory institutions in the semi-periphery which enjoy substantial autonomy from short-term political pressures and enjoy significant political legitimacy at the same time. For further elaboration of this point, see Alper and Öniº (2002).
During the summer of 2002 as this essay was written there a certain degree of optimism was evident in Turkey concerning the fact that the type of dislocation experienced in Argentina following the crisis would not be experienced in Turkey. While there are grounds to substantiate this optimism, these considerations should not be over exaggerated. Turkey also faces a severe debt burden. Achieving reasonable rates of growth and significant reduction in the debt burden are not easy objectives to accomplish. One should also take into account the fact that in certain key respects such as per capita income Argentina’s macro indicators are superior.

References


---

**TABLE I**

**BROAD ECONOMIC INDICATORS OF ARGENTINA AND TURKEY**

**PRIOR TO THE RECENT CRISES**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Population (Millions)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Arg.</td>
<td>27.9</td>
<td>44.7</td>
<td>32.5</td>
<td>56.5</td>
</tr>
<tr>
<td>GDP (US$ Billions)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1980</td>
<td>77</td>
<td>70.9</td>
<td>141.4</td>
<td>150.6</td>
</tr>
<tr>
<td>GDP Growth*</td>
<td>-0.7</td>
<td>5.3</td>
<td>4.3</td>
<td>3.8</td>
</tr>
<tr>
<td>GNI per capita**</td>
<td>3980</td>
<td>1570</td>
<td>2960</td>
<td>2715</td>
</tr>
<tr>
<td>Gross Domestic Investment/GDP</td>
<td>25.3</td>
<td>18.2</td>
<td>14</td>
<td>24.3</td>
</tr>
<tr>
<td></td>
<td>23.8</td>
<td>11.4</td>
<td>19.7</td>
<td>20.1</td>
</tr>
<tr>
<td>--------------------------------</td>
<td>------</td>
<td>------</td>
<td>------</td>
<td>------</td>
</tr>
<tr>
<td><strong>Gross Domestic Savings/GDP</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Exports (%GDP)</strong></td>
<td>5.1</td>
<td>5.2</td>
<td>10.4</td>
<td>13.3</td>
</tr>
<tr>
<td><strong>Imports (%GDP)</strong></td>
<td>6.5</td>
<td>11.9</td>
<td>4.6</td>
<td>17.6</td>
</tr>
<tr>
<td><strong>Current Account Balance/GDP</strong></td>
<td>-6.4</td>
<td>-4.8</td>
<td>1.2</td>
<td>-1.7</td>
</tr>
<tr>
<td><strong>Total Debt/GDP</strong></td>
<td>35.3</td>
<td>27</td>
<td>44</td>
<td>32.8</td>
</tr>
<tr>
<td><strong>External Debt (US$ Millions)</strong></td>
<td>27,157</td>
<td>19,131</td>
<td>62,232</td>
<td>49,424</td>
</tr>
<tr>
<td><strong>Net Foreign Direct Investment (US$ Millions)</strong></td>
<td>678</td>
<td>18</td>
<td>1,836</td>
<td>700</td>
</tr>
<tr>
<td><strong>Consumer Prices (% Change)</strong></td>
<td>100.8</td>
<td>94.3</td>
<td>2.314</td>
<td>60.3</td>
</tr>
</tbody>
</table>

Notes: 2000 data are 1999 preliminary estimates
(*) GDP growth in 1980 and 1990 are calculated as average annual growth for periods 1980-90 and 1990-99 respectively.
(**) GNI per capita is calculated in Atlas Method in current US$
Sources: The World Bank, *World Development Reports*, Various Years,
State Institute of Statistics, Statistical Annual for Turkey, 1993, p 52-55,
Internet Source: http://www.demographia.com/db-org-regions.htm
Internet Source: http://lanic.utexas.edu/la/region/aid/aid96/Overview/lareg.html