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Argentina-President Menem Visit, 11/14/91 [1]

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KEY ECONOMIC INDICATORS
ARGENTINA

October, 1990

In millions of U.S. dollars and period averages unless otherwise noted

<u>I T E M</u>	<u>1988</u>	<u>1989</u>	<u>1990(p)</u>
<u>DOMESTIC ECONOMY</u>			
Population (thousands)	31,933	32,403	32,880
Population growth, Percent	1.5	1.5	1.5
GDP current USD (millions)	83,146	82,704	84,300
Per capita GDP, current usd	2,603	2,552	2,564
GDP at constant 1970 prices	-2.7	-4.6	-3.5
CPI, percent change (yr. end)	387	4,923	1,500
<u>PRODUCTION AND EMPLOYMENT</u>			
Labor Force (thousands)	11,956	12,129	12,305
Avg. Unemployment, percent	6.3	7.7	8.8
Avg. Underemployment Rate	7.7	8.3	8.4
Ind. Production, per.ch.	-6.9	-7.7	-6.0
fiscal deficit, percent GDP 1/	5.0	8.0	4.0
<u>BALANCE OF PAYMENTS</u>			
Exports, Total (FOB)	9,133	9,567	10,800
Imports, Total (CIF)	5,322	4,201	4,050
Trade Balance	3,811	5,366	6,750
Current Account Balance 2/	-1,614	-1,308	-78
Foreign Direct Investment 3/	300	110	1,000
Foreign Debt, to both Public and Private Creditors (year end)4/	58,500	63,300	59,500
Interest Accrued	4,678	6,023	6,172
Interest Accrued per exports	51.2	63.0	57.1
Debt Service Paid	2,334	3,287	3,299
Foreign Exchange Reserves, Gross (year end)	4,979	3,419	4,000
Average Exchange Rate, Austral/USD	8.77	396.2	5,977
<u>FOREIGN INVESTMENT</u>			
Book value at year's end	6,300	6,500	7,500
U.S.(book value at year end)	2,390	2,500	3,100
U.S. share (percent)	37.9	38.5	41.3
<u>U.S./ARGENTINA TRADE</u>			
U.S. Exports to Arg.(FOB)	1,055	1,037	1,100
U.S. Imports from Arg.(FOB)	1,438	1,398	1,500
Bilateral Trade Balance	-383	-361	-400
U.S. Share of Arg. exports	15.7	14.6	13.9
U.S. Share of Arg imports	19.8	24.7	27.2

(P) Embassy projection.

1/ Combined deficit, includes the operating loss of the Central Bank.

2/ The Current Account Balance is calculated as if all interest payments are paid on time, while actually large arrears accumulated each year.

3/ Includes debt-for-equity conversions.

4/ By December 31, 1990, Argentina is expected to have accumulated some \$8.5 billion in arrears since 1987, mostly to commercial creditors, in addition to the principal outstanding.

Principal U.S. exports (1989): aircraft, spacecraft and associated equipment; parts for office machines and adp machines; ADP machinery and auxil. equip.; insecticides, disinfectants, etc.; bituminous coal; civil engineer and contractor's equip.; telecommunications equip. and parts; chemicals, organic and inorganic; measuring, checking etc. instruments.

Principal U.S. imports (1989): leather and manufactures; meat; crude oil and petroleum products; iron and steel plates, sheets, pipes, tubes and fittings; fruits and vegetable juices; apparel and textiles; aluminum; fish, fresh; sugar.

OVERVIEW

The Argentine economy continues in deep recession as the Government of President Carlos Menem carries through a major restructuring and adjustment program. Real Gross Domestic Product is expected to fall by 3 to 4 percent in 1990, following an accumulated decline of 7.1 percent over the previous two years. Industrial production is likely to drop 6 percent in 1990, after a 14.1 percent decline in 1988-9. A strong performance in the agricultural sector in 1990 has offset somewhat the decline in industrial activity. Resumption of sustained growth hinges on a track record of reforms sufficient for Argentines to bring back into productive investment in Argentina a sizeable portion of the \$40 billion they are estimated currently to hold offshore. Such growth is still a year or more in the future.

The principal economic objectives of the Menem Administration continue to be: stabilizing the economy by reducing the Government's role, an orderly transition to a market determined economy, the revival of growth through private sector investment, and increased exports.

The Government has made important progress on fiscal reforms. It has run an operating budget surplus since September 1989, making some headway in controlling spending by suspending direct subsidies among other reductions. It is still struggling with deindexation of wages, controlling payments to contractors, and reducing transfers to its public corporations in the midst of inflation that has resisted further improvement from a level of 10 to 15 percent a month during the second and third quarters of 1990. On the revenue side the Government is shifting its fiscal supports from export taxes and monetary creation to consumption taxes. However, tax evasion continues to be a problem, with possibly as much as 40 percent of business activity taking place off the books. An effort is underway to increase the amount of taxes that are actually collected. A needed restructuring of the banking sector has yet to begin.

As the Menem Administration established its track record on reform in emerging from a first quarter 1990 bout of hyperinflation, some confidence was restored in the Austral. Argentines are now more willing to hold australs for longer periods, helping to reduce the velocity at which the currency is spent. This has helped lower

pressure on indexed prices and wages, assisting the Government in gaining control of the money supply. Growth in the monetary base was essentially eliminated in September after reaching a 40 percent a month rate early in the second quarter. However, prices and wages generally remain indexed to inflation and Central Bank support remains necessary to support the Government's financial commitments as well as a banking sector in need of restructuring. As a result achieving even the modest goal of an inflation rate below 10 percent a month is proving to be difficult.

The banking sector as currently configured is not making a significant contribution to growth. It has over extended its deposit base in terms of the number of institutions and employees that could be supported by income from loans for productive investment or trade. This distortion was created by the long history of high inflation and the Central Bank's policy of high reserve requirements and soft loans. The resulting high real interest rates, supported by the opportunity cost of speculation, wiped out the long and medium-term loan markets. The productive lending that remains is for little more than working capital. Most Argentine firms that are weathering the financial storm carry little debt, with sizable amounts of funds offshore for imports and collateral for loans from offshore banks. Argentina's debt repayment problem has closed all but trade credit lines from abroad.

Argentina is a country rich in natural and human resources, and reforms are opening up opportunities for U.S. business. In the short-run U.S. business must be flexible to be successful in Argentina, and should not count on credit from Argentina to finance investments or trade. U.S. business must be prepared to move quickly to take advantage of windows of opportunity for exports. In this regard, the exchange rate policy of the Government presently is very favorable to imports.

CURRENT ECONOMIC SITUATION AND TRENDS

The Menem Reform Program. Since assuming office on July 8, 1989, the Administration of President Menem has pressed forward with efforts to make the Argentine economy more efficient through fiscal responsibility, the reduction of market controls, and expansion of foreign trade. His government has embarked on a gradual approach to economic reform. After a year in office, the Administration is making progress in opening the economy and reducing the role of the government. Much has been accomplished, with much left to be done.

The Administration plans major changes in the structure of the Argentine economy, changes that would have been difficult for many Argentines to imagine only a few years ago. Even more difficult to imagine would have been a president from Menem's party leading the change. Menem is from the Social Justice or "Peronist" party, which in the past promoted state control.

Powerful forces from all levels of Argentine society have developed over the years deep interest in the status quo. In addition to the tremendous influence the Government has had through contracts, collective wage settlement mechanisms, bank reserve requirements, price and wage controls, etc., it has been directly involved in the ownership of more than 400 state enterprises. These firms still require direct subsidies of roughly \$40 million a month or 7 percent of government expenditures. The Central Bank holds almost 4,000 properties received from failed financial institutions. However, two bouts of hyperinflation, one in the second quarter of 1989 and a second in the first quarter of 1990, convinced many that the Government no longer has the financial wherewithall to fund the direct subsidies, cheap utilities and negative interest rate loans that supported the old closed economic structure of import substitution.

At the start of his Administration, Menem and his team pushed through the Congress emergency economic legislation that curtailed government subsidies and opened the way for the privatization of many state-owned companies. New laws overhauled the tax system, shifting the emphasis to a value added tax on most goods and services from income and corporate taxes, which were difficult to collect. For the first time legislation passed making tax evasion a criminal offense. Recognizing the economy cannot be restructured without new investment, the Government rewrote the rules for foreign investors, inviting foreign capital in on equal terms with domestic investors.

An expanding trade surplus has provided an environment conducive for trade policy reforms. The Menem Administration cut ad valorem tariffs on a wide range of imports from an average of 24.3 to 17.4 percent. The number of products that must pass an import licensing review by competitors in local industry was reduced from over 1,000 to 25. Only product categories in the automotive field now remain on the review list. Progress on specific duties has been more mixed. Initially, the number of categories under this type of duty was increased by 84 in late 1989, but was subsequently reduced by 20 to the present level of 1429 categories or 12.2 percent of the tariff schedule. Specific duties remain the major trade policy barrier to imports into the Argentine market, with the textile industry the most successful in retaining such protection.

When hyperinflation returned in January 1990, the Menem Administration won over many skeptics by strengthening fiscal restraint measures in early March rather than falling back on price and exchange controls, as Argentine governments of the past. Other policy accomplishments include: maintenance of an operating budget surplus for the Argentine Government since September 1989 through the present; elimination of price controls on almost all items; establishment of a managed float for foreign exchange; resumption of some regular interest payments on foreign commercial debt; awarding privatization contracts.

The resulting growth in the Government's operating surplus in the second quarter of 1990 reduced the need for monetary creation to cover financial expenditures. This helped inflation, as measured by the official Consumer Price Index, fall from a monthly rate of 95.7 percent in March 1990 to 10.8 percent in July 1990. The Central Bank built up reserves to around \$2 billion dollars as of the second quarter 1990. Confidence in the economy began to return from the lows reached after the first quarter's hyperinflation, as demonstrated by the gradual return of the public's willingness to hold Australs. Australs in circulation and in checking accounts rose from only 1.8 percent of GDP on March 15, 1990 to 3.3 percent of GDP on June 31, 1990. The basic interbank "seven day call" rate fell from 100 percent a month to 2 percent. The reduction in export taxes and regulations along with port improvements helped agricultural exports to rebound from the lows of the previous drought year.

The slow, albeit significant progress, on reform has left the economy in a continuing recession with inflation and interest rates still too high and unstable to encourage the broad return of productive investment, production, and domestic consumption. Industrial production fell an estimated 10.3 percent for the first seven months of 1990 compared with the same period the year before. Agriculture is expected to have a good year, responsible for much of the surge in exports. But services and construction have declined from last year's levels. Investment on a per capita basis in the first quarter of 1990 was at least at a 20 year low. While there was a slight rebound in the second quarter, investment was falling again in the third quarter as inflation resisted further improvement. Based on this trend, GDP in real terms is expected to decline for the third year in a row.

While the managed float of the foreign exchange market has kept the Dollar relatively stable from March through September, distortions from continued double digit monthly inflation may be beginning to show in the economy. The continued indexation of prices and wages has caused the dollar value of the average industrial salary to climb 220 percent between February and August, while its buying power recovered only 32 percent. The expensive wage increases have hurt competitiveness, while leaving employees disappointed. Consequently, industrial production for the internal market has risen only slightly over the period, while production for export is beginning to fall.

Trade. Argentina's ballooning trade surplus for the first six months of 1990 was almost \$4 billion or 59 percent above where it was at mid-year 1989. The value of exports rose 22.8 percent, while imports values fell 18.1 percent. The recession kept imports at a depressed level, while a weak Austral encouraged exports during the principal grain shipping season of the first half of the year.

The surplus is on course for a record year, but only to perhaps as high as \$6.75 billion as the effects of a much stronger Austral

combined with climbing domestic input costs begin to take effect in the third and fourth quarters. The Austral has progressively strengthened since February to a point where in mid-September 1990 the Argentine currency is the strongest it has been against the U.S. Dollar since 1981. The projected trade surplus still would be an increase of 25 percent over the previous record set in 1989.

Exports seem likely to be up 12.8 percent by year's end, based on good crop yields and the gradual reduction of export taxes over most of 1990. Imports may be down by only 3.5 percent in 1990 after an initially weak Austral and continuing recession allowed consumer demand to fall and then recover only slowly during the first 7 months of the year. Initial figures for July imports show imports are continuing the rise started in April, a month after the Austral started to significantly strengthen.

Argentina has had a favorable balance of trade with the rest of the world every year since 1982. The outlook for 1991 is for the surplus to stop growing as the stronger Austral and severe drop in world grain prices take effect.

Recently, Argentina, Brazil, and Uruguay advanced to January 1, 1995 their formation into a common market. Progress on integration continues on a sectorial basis with the lifting of restrictions on cross-border transportation by truck. In the hope of broadening the common market still further, integration discussions also have been held with Paraguay and Chile.

The integration effort with Brazil is already beginning to pay dividends for Argentina in 1990, especially in the exports of food products. Unlike the rise against the Dollar, the Austral has depreciated against the Brazilian currency. Along with further opening of agricultural trade between the two countries, Argentina is currently running a steady bilateral trade surplus. The bilateral trade balance turned in Argentina's favor in 1989. After the first five months of 1990, the surplus was \$195 million, considerably above its 1989 level.

Privatizations. At the end of the Alfonsin Administration the Government was using roughly 10 percent of its expenditures or \$40 million a month to subsidize the firms it owned. Shortly after taking office in July 1989, the Menem administration announced an ambitious plan to sell off some 25 of Argentina's notoriously inefficient and debt-ridden state enterprises. The Government has allowed debt-for-equity swaps to play a large role in the financing of these sales, and plans to retire more than \$7 billion of Argentina's commercial bank debt through swaps for the assets of the national airline and telephone companies.

The Government has completed one privatization project (selling two state-owned television stations) and is moving rapidly with others. It announced awards to groups of foreign and domestic investors for the sale of the telecommunications company and state-owned airline,

and for concessions to operate as toll roads nearly one-third of the national government's highway system. Other tenders currently underway are for concessions to operate some 8,500 kilometers of the national railway system and for the sale of the Government's share of nine companies partially or totally owned by the Defense Ministry. Awards are expected in the coming months, as well as announcements of additional privatizations in railroads, defense, utilities, and activities such as the government's purchasing function.

Labor. Tied to Menem's efforts to reduce the public sector and introduce market forces are his legislative initiatives to permit flexibility in the employment laws and to restrict strikes in essential public services. Both bills remain bottled up in the Congress, but their presentation indicates the Administration's willingness to take on organized opposition if it is required to further economic adjustment.

Organized Labor, the Peronist's traditional base of support, is deeply divided over Menem's economic programs. The bulk of the union leadership supports the basic thrust of Menem's policies, but with reservations over various points which directly affect individual unions. A vocal minority of unions oppose the Government's programs, particularly efforts to privatize state-owned firms. Union leaders, in general, are concerned over continued erosion of real wages, but this is increasingly overshadowed by fears of rising unemployment. While strikes have not posed a serious threat to the reform programs, union officials are pushing the Government for relief, mainly through unspecified economic programs to create jobs and increase wages.

Organized labor's role in Argentina has changed since July 1989. Divisions within the union movement, based on disagreement over support for the Menem economic program along with personal and professional disputes, has limited the influence of Peronist labor on the Administration's policies. As a result, the Administration is able to introduce changes and take measures which directly affect the union movement and workers without provoking a direct confrontation with the bulk of organized labor.

Petroleum Deregulation. The Administration has also begun a sweeping deregulation of the petroleum sector. Following an international competition, private companies won in July 1990 the rights for exploration and production in some 30 oil fields heretofore reserved for the government-owned company. The Government is now selling bid packages for a similar competition for rights in four of the country's richest oil fields, where private companies will be required to associate with the state oil company. In addition, several key deregulating measures announced in late 1989 are to take effect January 1, 1991. The most significant of these are: price controls on petroleum products will end, producers will be able to sell their crude petroleum freely (they must now sell all of it to the state), and restrictions on retail operations (e.g. service stations) will be eased. All of these activities should lead to a significant increase in geological work in the next twelve months and an eventual boost in petroleum production.

Budget. In recent years, the Argentine Government has operated on a month to month basis, in effect, without an annual budget. For the first three quarters of 1990, the Government has continued this practice but is attempting to limit expenditures to 60 percent of the 1989 budget in real terms. The calendar year and the Argentine Government's fiscal year are the same. The proposed 1990 budget would limit expenditures to 35.5 percent of GDP. The intention is to restrict the consolidated deficit to 2.5 percent of GDP, down from 8.1 percent in 1989.

For 1990 The Treasury needs an operating budget surplus of about eight percent of GDP to service domestic and external debt obligations. However, the Treasury produced an operating surplus of only 2 percent of GDP in the second quarter and 1 percent in the third, when revenue collection faltered. As a result the Treasury funded only a portion of debt payments and the Central Bank has had to finance the majority of payments with monetary emission, which in turn has kept inflation from falling below the double digit level. Still the Central Bank only fought a rear guard action, just paying a portion of accrued debt service. As a result, debt arrears continue to build, while the Austral strengthens. In July, as growth in money demand stalled and the seasonal surge in agricultural export earnings ended, the Central Bank announced it would only acquire foreign exchange with funds from the Treasury's operating surplus. as this surplus has been small, the central bank has not been able to prevent the austral from becoming significantly overvalued.

International Finance and Debt. Argentina has the third largest external debt of any nation in Latin America. Debt owed to all external creditors is now over \$63 billion, with more than two thirds owed to foreign commercial banks. While the Government continues to keep current on payments to the multilateral financial institutions, it began only in June 1990 to make some interest payments to commercial banks, \$40 million a month, or about 15 percent of the commercial interest due each month. This has allowed arrears to build to the current level of over \$7.3 billion. The secondary market value of Argentina's debt was down to 13.5 cents on the dollar in August 1990, but in the large swaps involved in the privatization, purchasers are forced to offer considerably above this. While the Government has not held formal negotiations with the banks since 1988, it did meet with them informally in June 1990. An exception to the generally poor debt service performance is on private trade credits, where Argentine borrowers have been careful to keep the lines open.

With debt/equity swaps playing a significant role in the privatization of Argentina's public corporations, perhaps more than \$7 billion in commercial debt could be eliminated through this process by the end of 1990. This would drop total Argentine Government external debt back below the \$60 billion level. Government officials have indicated that other privatizations could reduce external debt by an added \$7 billion. The Argentine Government has also undertaken a third rescheduling of official bilateral debt in the Paris Club.

The Argentine Government has continued to work with the IMF under its November 1989 standby agreement. The agreement is much more important to the Argentine economy for the performance guidelines worked out between Argentine officials and IMF experts than the funds that are disbursed. While Argentina has not received all of the disbursement originally scheduled under the standby arrangement, the program's criteria have been a continuing guide for operation and further policy adjustments. Progress on policy reforms has allowed the multilateral development banks to play a larger role with the renewal of policy based lending in 1990.

Implications for the United States

Import Performance. In 1989 Argentine imports fell 21 percent to \$4.2 billion. Through the first five months of 1990 the U.S. exports to Argentina dropped to \$329.7 million or 8.1 percent lower than the same period in 1989. However the United States remained the top supplier of Argentine imports, expanding its market share by 3 percentage points to 22 percent as the overall demand for imports fell. With the Dollar weakening against the Austral as well as other major currencies, U.S. exporters to Argentina have become progressively more price competitive during the second and third quarters of the year. Since it is not clear how long this price advantage will last, exporters may want to move quickly to get the full advantage of the present situation.

Imports by Major Categories (millions of current dollars, c.i.f.)

	1986	1987	1988	1989
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Capital Goods	554	856	772	660
Raw Materials and Intermediate Goods	3,439	3,977	3,819	3,019
Fuels and Lubricants	418	657	489	364
Consumer Goods	313	329	234	184
Other	0	0	8	9
<u>Total</u>	<u>4,724</u>	<u>5,819</u>	<u>5,322</u>	<u>4,201</u>

Import Controls. Bringing competition to the Argentine market is a key element in the Menem Administration's effort to create a productive revolution among Argentine business. In an effort to open the market to competition from imports, the Government has eliminated special protection for electronic equipment, and redefined the computer classification system for tariffs to make importing easier. The Government is on course to eliminate the key non-tariff barrier used in the past to prohibit the imports of particular items, the import licensing review program. The 25 items that still require industrial review are all in the auto sector. The Government plans to eliminate this last group as well in the near future. The Government has made little progress in reducing specific duties, which are now more numerous than when the Menem Administration took over. Costly delays at ports of entry have brought an outcry from importers in recent months.

The free foreign exchange regime adopted in December 1989 allows importers with australs to buy foreign currency in the open market and expatriate their earnings as they like. While Argentina's trade surplus provides the economy with an abundance of dollars to cover import transactions, import financing is practically non-existent because of the financial problems faced by the country in recent years. U.S. exporters may have to provide suppliers' credit in some cases to ensure a successful sale.

Best Prospects. Based on the requirements of purchasers to update facilities at privatized public corporations and well as of sectors that are positioned to take advantage of the opening of the economy, the best prospects for U.S. exporters by general category are:

1. Oil and Gas Field Equipment
2. Telecommunications Equipment
3. Computers and Peripherals
4. Food Processing and Packaging Equipment
5. Agricultural Equipment
6. Textile Machinery

Requests for further details and information on import regulations can be made to: Argentina Desk Officer, International Trade Administration, Room H-3021, U.S. Department of Commerce, Washington, D.C. 20230; tel:(202) 377-1548.

Tourism. More Argentines travel to the United States than Americans travel to Argentina. In 1988, 114,000 Argentines traveled to the United States, while only 50,000 Americans traveled to Argentina. However, Argentina has recently embarked on an ambitious tourism promotion plan which includes installing tourism offices in four U.S. cities (Miami, Washington, New York, and Los Angeles). A bilateral tourism agreement has recently been signed that will encourage more aggressive tourism promotion by both countries. Efforts are also under way to attract several international hotel chains to Argentina. As of this writing, three were in some stage of negotiation for the construction of new hotels in Buenos Aires. For 1990, we expect to see 140,000 Argentines travel to the United States. For more information contact: U.S. Office of Trade and Tourism, USFCS, APO Miami 34034.

Major Projects. Most major projects have some financing from foreign sources. Several large hydroelectric projects are under construction: Yacyreta (World Bank and IDB), Piedra del Aguila (IDB), and Uruguay-I (IDB). Other major projects underway include electric energy transmission and distribution, water treatment, port development, hospitals, gas treatment and transportation, petrochemical projects, telecommunications projects, and other selected industrial development. Currently there is heavy private sector investment in oil field exportation and petrochemical

refineries. Further information can be obtained from: Office of International Major Projects, International Trade Administration, Room H-6930, U.S. Department of Commerce, Washington, D.C. 20230; tel: (202) 377-4643.

Investment Climate. Restructuring the economy for sustained growth requires new capital investment, and Argentines have the funds both at home and abroad to make real progress on their own. However, the history of inflation led many Argentines to keep their savings in U.S. dollars and in assets outside the country. The public is thought to be holding between 4 to 5 billion U.S. Dollars in Argentina and over \$40 billion abroad. So far Argentine investors have been reluctant to bring the funds back for long-term investments without the protection of foreign partners.

In order to increase the avenues for investment, the Administration pushed through the Congress the Emergency Economic Act and issued subsequent decrees to provide foreign investors with all of the rights and privileges enjoyed by local investors. Since September 1989, foreign investors are no longer required to obtain advanced approval to invest. They are only asked to register with the Argentine Government for statistical purposes and to obtain remittance rights should that become an issue again in the future. Repatriation of capital is through the free foreign exchange market.

The United States has reopened Overseas Private Investment Corporation (OPIC) activities in Argentina, and the Argentine Government has approved several new OPIC supported projects. There are no outstanding expropriation or nationalization cases.

While Argentine investment regulations have improved substantially, frequent changes in regulations throughout the economy continue to make business planning difficult. The Government has also committed to improve protection for patents. Once this protection is in place, Argentina will become a more attractive environment for the introduction of advanced technological processes.

U.S. Trade Promotion Events: The U.S. Embassy will organize the following trade events in Argentina in 1990 and 1991:

<u>Date</u>	<u>Event</u>
1990 November	Ports and Harbors
1991 April	Multi-state Catalogue Days
April	Sporting Goods USA
July	Hospitality USA
July/August	U.S. pavilion at the Rural Trade Fair
July/August	Agriculture and Conservation
August	Growth Industries

Additional information on these events can be obtained from the commercial section of the U.S. Embassy in Buenos Aires or from the Department of Commerce in Washington, DC.

Conclusion: U.S. exporters should assess the Argentine market on a mid- to long-term basis. If structural reforms are successful in permitting Argentina to realize its potential, firms will want to consider improving their positions during the early stages of the recovery to be able to take advantage of future sustained growth. U.S. exporters should be prepared to work through local agents, distributors, and representatives, or through joint ventures with as much local participation as possible both in services and equipment projects.

Oct. 1990

International Business

ARGENTINA

ARGENTINA GETS READY FOR 'SURGERY WITHOUT ANESTHETIC'

Countering years of tradition, Peronist Menem attacks state ownership

At La Gran Provisión, a supermarket off Buenos Aires' Avenida Libertador, customer Claudia Geisso says that prices "have finally leveled off." In July, retailers were changing price tags every morning and afternoon to keep pace with the hyperinflation that roared to a 197% monthly rate. The sharp braking of inflation is the good part of President Carlos Men-

em's attempt to drastically reshape Argentina's economy. The bad part, says Geisso, a 31-year-old mother of two, is that merchandise is still "very expensive."

Like malignant growths, the subsidies, protectionism, and government bureaucracy that have sapped the Argentine economy can't be removed without pain. **Soon after taking office as President on**

July 8, Menem vowed to perform "surgery without anesthetic" on the state-run enterprises whose huge deficits have fueled endemic inflation. But to cut budget deficits, Menem has also dealt Argentines' purchasing power and living standards a severe blow by hiking charges for underpriced transportation, electricity, and other public services by as much as 1,000%.

HIGH RISKS. Menem's aim is to unleash market forces and shrink the state's role in what he calls a "productive revolution." In an interview at the Casa Rosada, the presidential palace in Buenos Aires, he told BUSINESS WEEK: "We cannot afford to remain isolated from a world that is changing economically in a spectacular way." Politically, that may be a high-risk strategy in a country with

A TALK WITH CARLOS MENEM: 'SUBSIDIES NO LONGER EXIST'

As President of Argentina, Carlos Menem, 59, is pushing economic reforms. He also projects an energetic image, playing soccer and piloting Air Force jets. Before his state visit to the U.S., Menem talked with BUSINESS WEEK's São Paulo bureau manager Jeffrey Ryser and Buenos Aires correspondent Richard Kessler in the Casa Rosada's Cabinet room.

Q Why are you encouraging market forces?

A Economic stagnation! In the country of cows, wheat, milk, and abundance, how can we have 9 million people out of 30 million living in poverty? It is a product of a policy that evidently has been inadequate.

Q What are your aims?

A Argentina is powerful in raw materials, food, energy, and human resources. We must liberate these resources and open our doors so foreign capital can help us grow.

Q Politically, critics say, you have only a few months to get results.

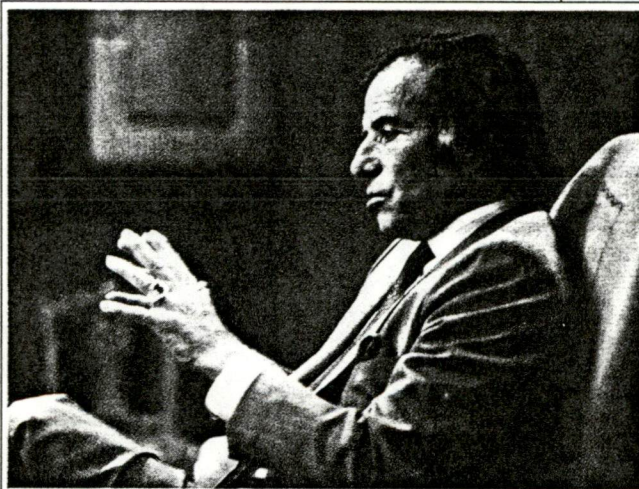
A Some sectors, particularly workers, are facing difficult conditions. But they are accepting it, except for certain groups that have not comprehended that Argentina has changed.

Q Your policies are likely to provoke strikes. How will you respond?

A We are going to take measures to challenge the union leadership in court. Those who don't work will be replaced by those who want to work. Regrettably, we have to be tough.

Q How about industrialists who still demand subsidies?

A Subsidies no longer exist. They will be as unprotected as pensioners, who



MENEM: "THOSE WHO DON'T WORK WILL BE REPLACED"

will no longer travel on subways free if their pension is over \$170. The same goes for power workers who pay reduced electric rates. These subsidies have disappeared forever.

Q What about Peronism's negative image abroad?

A (Looking annoyed) We can't spend all day telling what Peronism really is.

Peronism is what is happening now in Argentina.

Q Who will buy the companies being privatized?

A Whoever wants to. They are public tenders open to international bidders.

Q You plan to allow private foreign ownership of oil assets. Is this a first for Latin America?

A I believe we are the first in Latin America to carry out something as revolutionary as what we are doing with the Argentine state oil company.

Q Are you renewing diplomatic ties with Britain for the sake of economic ties with the European Community?

A There was no possibility of obtaining results for the integration of the Malvinas [Falkland Islands] to our country except by dialogue. And we know that because Argentina has a conflict with an EC member

state, it has direct or indirect problems with other EC members. These are practical, pragmatic questions.

Q President Bush seems to have started a sports-nut fashion among Presidents.

A What do you mean? I came before Bush: soccer, basketball, piloting airplanes, boxing, volleyball.

International Business

institutions that have been shaped by a pervasive government role. It is particularly surprising for a President elected last May as the candidate of the Peronist movement, formally known as the Justicialist Party. Peronism's founder, Juan Perón, saddled the Argentine economy with a system of state intervention, starting in the 1940s.

Like Soviet-bloc reformers who have been revising Marx and Lenin, however, the pragmatic Menem explains away his seemingly abrupt break with Peronist tradition by simply redefining it. "Peronism," he asserts bluntly, "is what is happening now in Argentina." Indeed, moves to open markets and shrink the government's role have also been happening in other Latin American countries, from Mexico and Venezuela to Bolivia and Chile, as well as in Eastern Europe (page 44).

Menem's performance will come under scrutiny when he visits President Bush on Sept. 27, just when bankers from around the globe are assembled in Washington for meetings of the World Bank and the International Monetary Fund. The IMF has readied a \$1.5 billion standby loan to Argentina, showing its approval of Menem's actions. Menem plans to initiate talks with the IMF, World Bank, and creditor governments to restructure their share of Argentina's \$55 billion foreign debt, and negotiate later with commercial banks, which hold \$39 billion of the total.

When Menem took office on July 8, Argentina was in a crisis triggered by waves of inflation and looting. Since then, he has been pushing a hectic agenda of economic reforms. "Back in June, we saw the abyss," recalls Patricio C. Perkins, president of Hughes Tool Co., a subsidiary of oil-field equipment maker Baker Hughes Inc. "Since then, there has been a 180-degree turn."

The first stage of Menem's strategy, which is aimed at stabilizing the economy, lowered inflation to about a 6% rate in September. As part of Menem's approach, he persuaded business and labor to hold down prices and wages. But to douse inflationary pressures that would eventually shatter such a pact, Menem

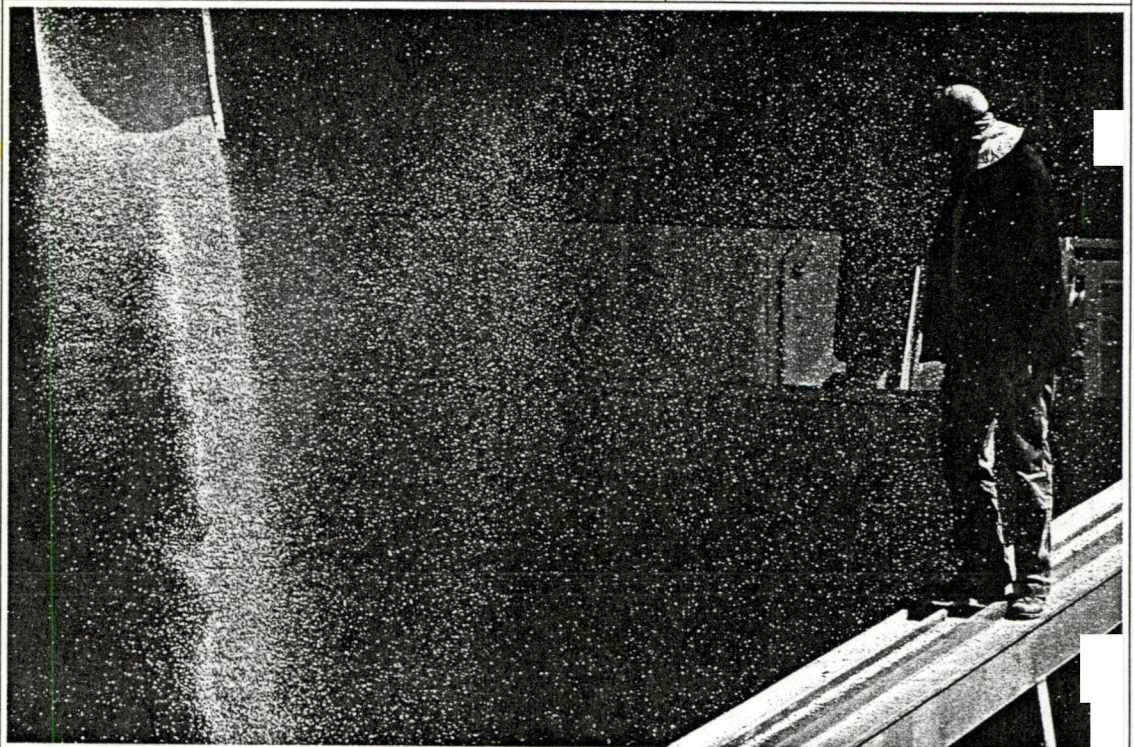
also took steps to slash the runaway federal deficit, equivalent to 23% of Argentina's \$70 billion gross domestic product. A key measure is the Economic Emergency Act that he got Congress to pass. It reduces subsidies, including costly handouts to industry in the guise of "industrial promotion," by \$2.5 billion a year.

TAX CHEATS AROUND. In October, the budget deficit is expected to drop to zero, and by December, it may be in surplus, says Deputy Economy Minister Orlando J. Ferreres. But this doesn't count the \$3.5 billion annual interest on the debt to foreign banks, which former President Raúl Alfonsín stopped paying in 1988.

Basic economic restructuring, the second stage in Menem's strategy, is also under way. For decades, Argentina has printed money partly to make up for the shortfall in tax revenues caused by widespread tax evasion. Tax reform will

By yearend, Aerolíneas Argentinas is also slated to go on sale, along with oil- and gas-exploration acreage held by Yacimientos Petrolíferos Argentinos (YPF), the state oil company. Menem has already speeded up foreign leasing of more than 20 tracts that had been held up by bureaucratic delays under a program launched by Alfonsín. Texaco, for one, plans to invest \$35 million in Argentina, and Exxon is expected to start drilling offshore. Under an "intervenor" appointed by Menem, YPF operations such as tankers and drilling services may be privatized. Such a reduction of the government's role in the oil industry—a nationalist sacred cow throughout Latin America—is another abrupt reversal of traditional Peronism.

Like Venezuela's Carlos Andrés Pérez and Mexico's Carlos Salinas de Gortari, Menem seems certain to face show-downs over his restructuring—with labor unions and with industrialists accus-



LOADING GRAIN FOR EXPORT: ARGENTINA, SAYS MENEM, "CANNOT AFFORD TO REMAIN ISOLATED"

boost receipts to 16% of gross domestic product this year and to 24% in 1990, Ferreres predicts, by simplifying the tax code and computerizing collections.

A law passed by Congress on Sept. 1 also has set in motion a massive sell-off of more than 30 state-run companies, ranging from railroad lines to TV stations, with foreigners and Argentinians bidding on equal terms. For Entel, the telephone company that will go on the block soon, bidders are expected to include BellSouth, Italy's Telettra, Sweden's L. M. Ericsson, Spain's Telefónica, and possibly West Germany's Siemens.

tomed to government subsidies and protection. But Menem may benefit from voters' unhappiness with past policies, which have shrunk Argentina's GDP by 15% since 1975.

"We think Menem will replace ideology with common sense," says Ferreres. If Menem succeeds in doing that, he will be opening Argentina to the same forces of private enterprise and competition that are transforming other economies, from Latin America to the Soviet bloc.

By Jeffrey Ryser and Richard Kessler in Buenos Aires, with John Pearson in New York

CARLOS MENEM: A PERONIST WHO MAY RULE LIKE A PRAGMATIST

Campaigning for Argentina's May 14 presidential election, bewhiskered Peronist candidate Carlos Saúl Menem talked like a traditional populist, making vague promises aimed at pleasing almost everyone. But to the surprise of friends and foes, when he takes office as President on July 8, he may start to dismantle the highly protected, state-dominated economic structure created by Juan Domingo Perón in the 1950s. By choosing Miguel Roig, a multinational corporate executive, as Economy Minister, Menem signaled that he intends to take a pragmatic approach to Argentina's staggering problems. Menem appears intent on shifting from traditional Peronist economic intervention toward more reliance on private enterprise and open markets.

The 63-year-old Roig, who didn't vote for Menem, was formerly executive vice-president of Bunge & Born, a Buenos Aires trading and industrial giant. In the past year, Roig has been active in a subsidiary that has developed economic models and strategies to curb inflation with a wage-price agreement among business, labor, and the government, followed by measures to shrink Argentina's bloated public sector and other structural reforms. "Clearly, Menem wants the business class to feel an obligation to participate," says Aldo Ferrer, president of the Banco de la Provincia de Buenos Aires and a former Economy Minister. In the past, business' role in such recovery efforts has been dominated by state-run companies and beneficiaries of government favors rather than by internationally competitive corporations such as Bunge & Born.

TOUGH JOB. Paradoxically, Menem may have a better chance of succeeding because his own backers have been among the biggest obstacles to reform in the past. He will have to force a showdown with powerful Peronist labor unions to attack the roots of Argentina's economic malaise—starting with 115 money-losing state companies. Privatizing those would affect the

jobs of 22% of Argentine workers. He must also try to renegotiate Argentina's \$60 billion foreign debt. To oversee that tough job he has picked Domingo Cavallo, a Harvard-trained economist who will serve as Foreign Minister. Still, doubts remain about Menem's commitment to reform because he has named Ministers of Energy and Public Works who represent Peronism's traditional, statist philosophy.

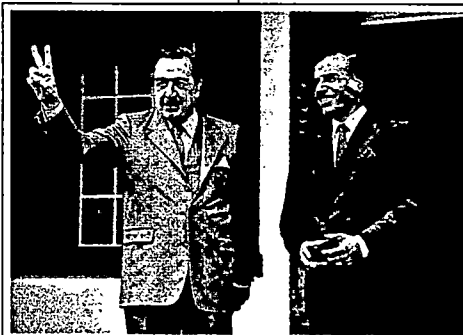
However, if Menem pushes a market-oriented overhaul of

Argentina's economy, he will be following the example of other key Latin countries. Mexico's Carlos Salinas de Gortari, for one, is already opening up a protected, state-dominated economy. An even more encouraging example for Menem to emulate may be Venezuela's Carlos Andrés Pérez. In the 1970s, in his first term as president, Pérez was a free-spending populist. But since starting a second term last December, Pérez has braked inflation with tough measures ranging from tariff cuts to removal of wage and price controls. In doing so,

Pérez is bucking both the leadership of his own Democratic Action Party and labor unions, which staged the first nationwide strike since 1957 in May. But he is starting to win business support.

In Argentina, rioting and looting by hungry Argentines in late May prompted a decision by Alfonsín to step down before his term's scheduled end on Dec. 10. But he has agreed with Menem that legislators of Alfonsín's Radical Civic Union will support reform legislation until a new Congress is installed in December. Although Alfonsín failed in his economic policies, he resisted disruptive political meddling by the military and strengthened Argentine democracy. For Menem, that legacy should offer a sound footing as he struggles to arrest the country's now startling economic decline.

By Jeffrey Ryser and Richard Kessler in Buenos Aires, with Gail DeGeorge in Miami



ALFONSIN AND SUCCESSOR MENEM

GLOBAL WRAPUP

GREECE

Voters' reaction against financial scandals in Prime Minister Andreas Papandreu's government, as well as his publicized extramarital romance, appears to have ended eight years of socialist rule. But the failure of any party to win a parliamentary majority in elections on June 18 raises the likelihood of months of weak, do-nothing government and new elections sometime between next fall and spring.

The result will be to delay measures needed to integrate Greece's economy with the rest of the European Community. Stalled are banking reforms, freeing of capital movements, steps to make the

drachma fully convertible, and easing of restrictive labor laws.

The conservative New Democracy Party, led by Constantine Mitsotakis, won 44.3% of the vote against 39.2% for Papandreu's Panhellenic Socialist Movement. To form a government, either would have to join with a Communist-led alliance that won 13.5% of the vote. But coalitions have had little success in Greece, so the next government may be short-lived.

MEXICO

State and local elections on July 2 will test the strength of the ruling Institutional Revolutionary Party (PRI) and President Carlos Salinas de

Gortari's commitment to clean elections. The crucial contest pits 38-year-old Margarita Ortega, the PRI candidate, against former Ensenada Mayor Ernesto Ruffo Appel of the conservative National Action Party (PAN) in a close gubernatorial race in Baja California Norte. In 60 years, the PRI has never lost a governorship. But if the PAN is able to make a credible claim of electoral fraud, it would tarnish Salinas' reformist image.

Opponents are likely to win city posts in Chihuahua state and legislative seats in Michoacán state, a stronghold of leftist leader Cuauhtémoc Cárdenas. But in Baja's tight race, it's a good bet that the PRI machine will manage to keep the governorship within the party.

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Week Ending Friday, December 14, 1990

Remarks to a Joint Session of the Congress in Buenos Aires, Argentina *December 5, 1990*

Thank you, Mr. President of the Senate, Eduardo Duhalde. Thank you for those wonderful remarks. To the President pro tem of the Senate, Senator Menem; and the President of the Chamber of Deputies, Dr. Pierra; distinguished members of the Supreme Court; distinguished members of the military; distinguished legislators and government officials; and ladies and gentlemen, I am honored to be with you in this very beautiful Hall of Democracy, with so many Members of your Congress. And I am privileged to be with you at this special time in history—both your own history and the history we share as members of the same hemisphere—for we live in an era of dramatic change.

Some may have thought that the events of Monday would make me change my plans. To the contrary, they strengthened my resolve to come to Argentina, to stand shoulder to shoulder with President Menem and the Argentine people, who love democracy and refuse to see it subverted.

The message today from Argentina is clear: Democracy is here to stay. Too many brave people sacrificed and died to bring democracy back to Latin America. Let those who would attack constitutional democracy understand: In Latin America the day of the dictator is over. Violent assaults upon the rule of law represent the old way of thinking, the old way of acting this history has left behind. It is time to think anew.

No longer should we think in terms of the Old World, where our roots lie, or of the First World or the Third World. No, we must move beyond the labels that once separated us to grasp the common future that unites us. Argentina, the United States, and the other nations in this continent share the promise of a new dawn in a new world.

So, I have come to Argentina to speak about change—you heard it first from the

Vice President—the kind of positive, hopeful change symbolized by the Sun of the Spirit of May in your dramatic seal.

There's an old saying that when North Americans meet Argentines, they look into a mirror. I've felt that. Much here seems familiar: the cattle, the seas of grass, the love of liberty, the shared belief in the dignity of the individual, our common European roots and shared colonial past, the warm energy and the spirit of the people, even our interest in sport—we look forward to welcoming your team to the United States in 1994 for our first hosting of the World Cup, for example. But above all, above all, we share a devotion and a commitment to our respective nations that would have pleased General San Martín, who wrote: "Love for one's native land fuels noble souls."

All of this is part of the unique bond between our countries, but it's also recent history that unites us. Your return of democracy has brought our peoples closer than ever before. Your sacrifice during past decades caused us deep anguish and concern. But your people did not lose faith in the democratic ideal, and the United States did not lose faith in you.

As we prepare, with optimism and anticipation, for the challenges facing this hemisphere and the rest of the world, some things are clear. We all know that we want to live in a new world that is a model of security and stability. This means regional arms control—as well as nuclear, missile, and chemical nonproliferation—and the collective determination to face down aggression.

As I said the day before yesterday in Brasilia, the United States applauds the decision announced November 28th by the leaders of Argentina and Brazil to move forward on nuclear safeguards and to bring the Treaty of Tlatelolco into force. We hope you will move quickly to realize both of these commitments, as they have a direct, measurable impact on regional and world

security. Such action will also allow the United States and other countries to expand significantly the range of our nuclear and other technical cooperation. We are eager and we are ready to do so.

In the current crisis halfway around the world in the Gulf, you have also shown strength and vision by helping to lead international efforts to stop Saddam's [President Saddam Hussein of Iraq] brutal aggression. Your contribution to the multinational force in the Gulf is a statement of your commitment to peace and a commitment to the rule of law and a clear sign that you are assuming your rightful place as a leader among freedom-loving nations.

Argentina and President Menem have not limited their efforts to promoting international security. Here in this great country, you have embarked on another courageous action: the restoration of your economic dynamism. Your President, Carlos Menem, has defined the challenge that we face to day. He said: "To take advantage of democratic experiences, to propel economic growth and progress, is the principal crossroads and challenge for our peoples and governments."

It is a difficult challenge, as I believe few Presidents have ever taken office under more testing circumstances than did President Menem. And yet he and his colleagues in this Congress did not shrink from the task at hand. Instead, you've set into motion a forward-looking structural, economic, and social transformation of this great country.

We know of the painful, short-term sacrifices that you are being called upon to make, in what your own President has called surgery without anesthesia. For this tremendous undertaking to succeed, it will not take miracles; it will take work. But know that the United States is prepared to work with you every step of the way.

Just yesterday we signed two new agreements, a mutual legal assistance treaty and a mutual customs cooperation agreement. And last June, to help this movement in your nation and the others of this continent, we proposed the Enterprise for the Americas Initiative, which calls for a major hemispheric effort to expand trade and investment and to reduce debt; to unleash energy; to encourage initiative; and to let the incentive of reward inspire people to

better themselves, their families, and their futures. We are absolutely committed to this initiative as a major priority. It will give impetus to the essential economic restructuring which you already have underway, and it will sustain and deepen this process in tangible ways.

The initiative is our hemisphere's new declaration of interdependence. For economic revolution is the equal of political revolution, and economic cooperation must be embraced not as a threat to privilege for a few but as the key to prosperity for all. We know that prosperity in our hemisphere depends on trade, not aid. And it is within our power to make our region the largest trading center of sovereign nations in the world. Already, the Southern Cone common market is moving us closer to our ultimate objective: a free-trade system that links all of the Americas. We support you in this and look forward to completing a framework agreement on trade and investment between the United States and the Southern Cone.

But to promote long-term growth, we need the successful conclusion of the Uruguay round. The negotiators must succeed in their efforts to reduce or eliminate tariffs, subsidies, and other barriers to agricultural products. This will mean new market opportunities for the farmer in Buenos Aires Province, the agricultural workers in Jujuy, and the engineer in Rosario.

No act could be more significant for your nation than the move toward a market-oriented economy, a move crucial to attracting foreign investment. You see, it lays the groundwork for your future, building a road that leads to a modern, growing Argentina. A free-enterprise economy will encourage capital investment, greater individual initiative, and real prosperity for this and future generations. With the help of the Inter-American Development Bank, we want to encourage the reform and the opening of investment regimes. The spirit of enterprise will unleash your great potential and assure this nation of its position as one of the most vigorous nations in the world.

The reforms that you are carrying out in your economy, including your bold program of privatization, are not only the key to economic growth and expanded opportuni-

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*Note: The President
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Eduardo Duhalde,
and Vice President*

Toast at a State Dinner in Buenos Aires, Argentina

December 5, 1990

Mr. President, my friend Carlos Menem, thank you for those very kind words. And it has been a very great honor for Dorothy, our daughter, and me and for the rest of us on the American side to be received in this magnificent setting, to be received so warmly by your people, and to be received so warmly by your very special President, Carlos Menem. We are simply delighted to be here in this beautiful country that has rejoined the ranks of the world's great democracies, a democracy built on what your national anthem refers to as the "sacred cry" of freedom.

I liked what your President said about a nation together for the final takeoff. And Carlos—or Mr. President—[laughter]—I have the feeling that you have involved the people and that the people are proud in their support. And this week, by your firm action, supported by the people, you proved again that no one will take away the freedom of the Argentinean people.

You've helped reestablish this wonderful democratic tradition, and I salute your bold reform of the economy. You're rising to the challenges laid out in the Enterprise for the Americas Initiative for all nations in the hemisphere to join together to boost trade, investment, and growth.

Today President Menem and I talked at length about these issues and how best to bring economic recovery to this hemisphere. We recalled progress already made. And I spoke at some length about these ideas, which are of immense importance to our nations, during my speech at your Congress earlier today. And tonight President Menem has given an eloquent response, and I thank him.

But even though we've been here just a short time, this visit has again reminded me of the likenesses that unite our peoples. Think of our nations' beauty. One of America's patriotic songs—"purple mountains' majesty" and "amber waves of grain"—that would define Argentina, as would the words of Jose [Jorge] Luis Borges, describing this city's "silent magic that captures newcomers almost totally." Think of the splendor of

ty; they are also the first crucial steps under the Brady plan to achieve debt reduction with your commercial creditors. I understand the burden of debt that weighs on Argentina, but I believe that today—like Mexico, Venezuela, Uruguay, and Costa Rica—Argentina is on the right road to reduce that burden under the Brady plan.

The way we deal with our common economic realities can be a stepping-stone to a permanent partnership among all the nations of the Americas. I believe we are on the brink of something unprecedented in world history—the first wholly democratic hemisphere. Think of it: the first hemisphere devoted to freedom—to free speech, to free elections, free enterprise, free trade, free markets.

And that's why I've come to your country: to celebrate what we share, to commit the United States of America to the movement toward democracy and prosperity all throughout the Americas, to stress the vital importance of mutual cooperation and understanding among traditional friends. For we read in Martin Fierro: "brothers should stand by each other, because this is the first law." And he goes on: "keep a true bond between you at each and every time."

You know, Argentina is a great nation with enormous resources, but none more impressive than the Argentinean people themselves. When this century began, Argentina was among the most prosperous and productive nations in the entire world. And I am totally confident that Argentina will be such an economic leader again and continue to lead this hemisphere.

Together, yet from our own beloved lands, we will watch freedom, democracy, and prosperity grow. We will watch it from the vantage point of two countries strong in liberty and expanding in economy. And we can look forward together with shared optimism to the 21st century, to the brilliant new dawn of a splendid new world.

Thank you all very much for this warm welcome. I am delighted to have been your guest here today. Thank you.

Note: The President spoke at 4:45 p.m. in the Congressional Chamber at the Palacio del Congreso. In his remarks, he referred to Eduardo Duhalde, President of the Senate and Vice President of Argentina.

the Andes, the jungles of Misiones, or the valleys of Patagonia; and they match the sweep of the continent that is America. And think, also, of other likenesses. We both were founded on equality and liberty. Each of us reveres the individual: you, the gaucho; we, the cowboy. We both honor values like work, family, belief in country, belief in God.

These likenesses have helped Argentina create a world where, as President Menem said last year, "More and more, every day, we all depend upon one another." And I agree. And I want to thank you, Mr. President, and your people for standing as allies in the Persian Gulf against Saddam Hussein's [President of Iraq] naked aggression. Together, we will do what is right, and we will do what is good—and we will prevail.

In that spirit and with real gratitude in my heart, I ask our guests to stand and raise their glasses: To the nation of Argentina; to friendship between us that has never been more strong; and to the health of my friend and distinguished colleague, Carlos Menem, the President of Argentina.

Note: The President spoke at 10:06 p.m. at the Sociedad Rural Restaurante. In his remarks, he referred to his daughter, Dorothy LeBlond. A tape was not available for verification of the content of these remarks.

Remarks to a Joint Session of the Congress in Valparaiso, Chile

December 6, 1990

Well, first, may I salute the President of the Senate, President Valdes. And far be it from me to lecture to his colleagues in these distinguished bodies. But I first knew him years ago when he served the United Nations with such distinction; and I would simply say to everybody here, I think we can all understand why, with that service behind him, he has what I would say is a very forward-looking, global view. And I respect his views. And thank you very much, Mr. President, not only for your remarks but for your welcome.

I want to salute the President of the Chamber of Deputies, Jose Viera Gallo;

Members of the national Congress; and all of the people of Chile. And really, it is for me, having come out of our Congress in the United States, a great privilege to address you today and to bring you on behalf of the American people our heartfelt congratulations on Chile's return to democratic rule.

Here amid the hills of Valparaiso, here in the halls of this beautiful assembly, stands proof that Chile has returned to the democratic path, proof that in Chile, once more, the people shall govern. It is my hope that this visit will renew and strengthen the ties between our two nations that trace back to the first days of Chilean independence, to your first Congress, convened on the 4th of July, 1811; to the guiding principles we share, "the community of ideas" that link your new nation to our own nation nearly 180 years ago. At the center of that community of ideas stand the shining principles that unite us today: individual liberty and democracy.

In the past year, the world has focused on the dramatic events that brought freedom and democracy to eastern Europe and an end to an era of cold war and conflict that your President just talked about. But the principles at the root of those revolutions across the Atlantic are the very same that give life to our own democratic destiny. And in spite of the remarkable events unfolding in Europe, we should not lose sight of the fact that the triumph of the democratic ideal promises to make the Americas the first fully free hemisphere in all of history.

Chileans can take great pride in the role they have played in Latin America's democratic renaissance. Since the plebiscite of October 1988, Chile has undergone a political transformation every bit as far-reaching as the revolutions that changed the face of eastern Europe. When others, frustrated by the long years under autocratic rule, might have engaged in recrimination, you, Chile, chose reconciliation. When others might have consumed themselves with settling scores, Chile chose to draw a positive lesson from the agony and the pain of the past.

Every year under autocratic rule served only to deepen your devotion to freedom and tolerance and respect for human rights, to strengthen Chile's collective resolve to

make this return and to make it return to the leadership of great moral Aylwin. But as stands, as every democracy's ultimate shoulders of collective comm every citizen in station in society mocracy above you.

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Argentina

President Menem's Address to National Congress

*PY0205110090 Buenos Aires Argentina Televisora
Color Network in Spanish 1357 GMT 1 May 90*

[Speech to Congress by President Carlos Menem at Congress Building in Buenos Aires—live]

[Text] Honorable Congress, brothers and sisters of my fatherland: the courage of a people is not only assessed on the battlefield, or at the time of a catastrophe or accident. The courage of a people is also measured by how much truth they can bear. This is why today I have come here to talk in complete honesty. If you forgive me, I want to put aside all formulas and protocol. As president of all inhabitants of this blessed land I do not want, seek, or intend to transform this message into a simple inventory of government measures. I have not come here to speak with hollow phrases. I do not want to make a speech full of excuses or praise. On the contrary, I have deep conviction. I have not come here only to make an account of my government's accomplishments, but also to tell you of our frustrations, our mistakes, our debts to society. I have come to recall the government successes, but also its debts to society. I want to recall our measures, but also to call on you to seek solutions to impending problems. I want to avoid an unjustified claim of triumph, the shortsighted thinking that all is well, the blindness of not wanting to see, the narrow mind.

I call on everyone's honesty when assessing the work of our government. I ask for the humility to praise and criticize. I ask that you show humility when assessing our accomplishments and see that they are not exaggerated or minimized. I do not permit any public officials to draw irresponsible conclusions from provisional results. I call on the opposition to avoid undue exaggerations and to avoid appraising everything as apocalyptic.

I would not be honest if I forgot that our country was on fire. We still feel the ashes, the painful wounds, and the smoking debris of this fire. Neither would I be honest if I did not state my certainty that we are on the right path. We have a new horizon, full of hurdles, difficulties, and—why not admit it—a horizon full of logical and human contradictions. This happens when you want to change everything and you look with anxiety at the countless problems ahead.

I want to ask all legislators to sincerely recognize the integrity and courage of the Argentine people, particularly the humblest ones, those who own less, those who are hungry, those who are showing us with their sweat where our main responsibility lies.

Our people showed an unsuspected maturity as they stoically bore the bitterest moments, the most dramatic days, the most difficult times. The Argentine people showed maturity and patience when everything seemed to fall apart, when our strength seemed to weaken, when the temptation to violence or totalitarian delirium

seemed the easy way out. They did not weaken, lose the path, or give way to despair.

During my inauguration I made a concrete call for national unity. Today I want to salute the unity of the Argentine people. It was seen every day. I want to reiterate the call for national unity, which is more important than partisan differences, ideological flags, or sectarian interests.

The time has come for all leaders of every faction and every sector to respond to the exemplary lesson given to us by our people daily, to speak their language, to express their desires, and to represent their wishes even more. I want to urge all leaders of the fatherland to give up the selfish confrontations, the short-term speculation, the rancor of the past. I ask them to make use of the best tools for defending democracy and our institutions. I also want to promise that the national government will avoid becoming all-powerful, will disdain arrogance, and will not think of future elections but only of future generations.

With that promise, with that point of view, the president of Argentina is willing to continue paying all political costs to guarantee the agreement and friendship among all Argentines. [applause]

The sacred idea of national reconciliation means that we Argentines have the right and the obligation to disagree about our ideas, but that we cannot afford to disagree about our ideals. What is the fatherland but a shared ideal, a common dream, a hope that goes beyond all difficulties and all partisan labels?

The people do not seek national unity only to be together. The people live together for something. National unity is not just a static symbol of good will. It is not an abstract or rigid concept. National unity is like a dynamic engine, the muscle that moves us to recover the greatness of the nation that has been lost and forgotten. That engine is today moving us to implement a number of profound changes that Argentina—when it lacked decisiveness and conviction—had been delaying.

That is the essential cause which motivates our steps. That is the only banner I am raising here and now. As president of the nation I do not care whether a given policy is of the right, of the left, or of the center. I only care whether a policy is good or bad for the fatherland. [applause] I care whether a policy is good or bad for our children, and for the children of our children.

It would be useless to deny the important dilemma I encountered some 10 months ago, when I assumed the responsibility of leading the fatherland. As president of all citizens I encountered a dramatic dilemma on 8 July 1989. I could either become a simple witness to the crisis, or I could decide to begin a serious transformation. I could either administer poverty or begin profound changes that could lead to a better exploitation of our resources. I could either become the leader of the status

quo, of more of the same, of a tested and unsuccessful libretto, or I could call on all Argentines to finally turn a historical page in our life.

The option I chose was the toughest one, the most complex, the most painful for all, especially for the president. It would have been much easier to engage in demagoguery, to indulge in deceit, to decide on the easiest things, to nourish irresponsibility. That error, however, could have led to an authentic national tragedy. This dying country could no longer tolerate any kind of adventure. This sick country could no longer be cured with old medicines. For this reason our proposal is strong, and our decisions are for change. This is the reason for the conviction—for the transforming and revolutionary idea of the new political, economic, and social system we have proposed to all citizens.

This system requires, above all, a great effort of cultural transformation and the modification of our habits and traditions. This system cannot be changed by decree, by the decision of a bureaucrat, or by an administrative measure.

It would have been easy, very easy but very cruel, to launch a process of change with a gun under my arm and to the sound of bullets. It would have been easy to change Argentina by socially neglecting millions of Argentines, by the use of force and authoritarianism.

The difficult thing to do, the epic problem of our times, is to put Argentina on sound footing by modifying our conscience, by calling on all citizens to participate in the process, and by integrating all forgotten citizens into the fatherland. This is the real challenge. You can be unfair by distributing wealth poorly or by preventing the creation of new wealth. The old system would have perpetuated our decadence and would have continued to squander our wealth and cheat our humblest citizens. The old system broke our country into an irrelevant group of economic and social islands.

Our system has two main pillars, two priorities: freedom and social justice. In a country like ours, freedom and social justice are not only rights but also duties. Freedom is not the right to die of hunger. It is not the consolidation of misery or the perpetuation of the powerful in their privileges. We are betting on the creation of a system that rewards work above all other economic activity.

Our decision from the beginning was clear. Argentina could not continue being a populist country with an empty pocket; a banana republic looking at the brain drain; a country imprisoned in a vicious circle of speculation, institutional swindling, and decadence.

To change the trend we had to boost the nation over those hurdles, free its energies, uncover its more painful wounds and its worst misery. We had to cut the knot binding the special interests, public theft, well-organized lobbies, and strong pockets of patronage and privilege. We had to terminate a social and economic system that

was hindering our growth, production, and working culture. We therefore placed on the table our worst contradictions and our system of failure and backwardness.

My government said enough to this system, maybe without a perfect remedy, maybe facing more difficulties than we expected, and undoubtedly with many regulation and implementation problems. However, we said enough, and our decision is irrevocable.

The state reform and economic reform laws that you patriotically approved at the beginning of my term were the basis of the new model. We also submitted to you, within this framework, the law penalizing tax evasion, the law establishing a new tax system, Decrees 435 and 612 of 1990, and the complementary regulations to establish new rules on behavior in the economic field.

The new model is perfectly defined. We want to build a humanized, decent, efficient, and competitive capitalism—a true capitalism and not a rhetorical capitalism built as a wall to hide evil, dark, and destructive vices.

Because real capitalism excludes state bureaucracy and private incompetence, it also excludes the socialization of losses and the privatization of profits. It also rejects minimum production, high speculation, and rich businessmen with impoverished companies. Therefore, the first step was to become sincere in the debates about our national economy, to put an end to the hypocrisy of proclaiming principles in declarations and forgetting them in decisions, to establish the most stable possible rules within the terrible changes produced by the crisis, to make the economic mechanisms more open and less obstructed by decisions from people who are not involved with the main participants of our economy. The economic mechanisms should be in the hands of people capable of carrying out a process of change.

As predicted, the change produced many risks, traumatic moments, disagreements, disappointments, and pressures. We thought we had overcome many of these risks early on, when we saw initial signs of stability and a calm before the storm. I am quite sure that we lacked a very clear notion of the changes that were needed and a system of implementation to ensure their immediate efficiency. I must be very clear in this aspect; at times we stumbled over the slowness of our own bureaucracy and our own internal problems. Sometimes we postponed some measures, waiting for private initiative that was very late in arriving and that even today is not adequate for the community's needs.

Just as it would be simplistic to say that the time for effort has passed, it would also be simplistic to make the government responsible for all the problems, especially when we chose the options of freedom and responsibility. It is necessary to be realistic and prudent, both in the evaluation of what happened and in the projection of what is coming. Each of us must learn the lessons of the last few months, because we know that the grumbling from the old system will continue to be heard, despite

our partial success and the sacrifices we have made, despite the road we have followed and the road that remains ahead.

I would like to reiterate once again the president's irrevocable decision on this matter: The times of getting rich quick and easy by means of financial speculation are over in Argentina. [applause] The times of irritating privileges under the protection of a broken state are over in Argentina. No one can ignore that situation. It will be necessary to remove the things that kept us down for years; the things that no one has so far dared to remove; the things that drove us to the depths of hyperinflation, and worse yet to the depths of national hyperfrustration, to the hyperpoverty of a large part of the population, and to the economic and cultural hyperbackwardness. Under this situation we cannot have political sovereignty, economic independence, or social justice. This is the situation we expect to change.

Legislators, last year's economic situation was marked by hyperinflation and recession. The hyperinflationary recession is not a brief situation or part of the economic cycle, as other types of recession, because it breaks the business sector's will to invest, and takes away the possibility of public investments, thus preventing the creation of new jobs. Although hyperinflation can be brief and violent, its consequences can last a very long time, because it breaks down production and takes the country out of the international markets. What is worse, hyperinflation destroys the country's economic and cultural potential, the capabilities of the labor force, the initiative of the private sector, and the state's ability to mediate. That situation is only a step away from national dissolution, as history has often shown.

It cannot then be surprising that our struggle in this area has essentially been directed at bringing down hyperinflation. We did so without disregarding other pressing needs of a country that has not experienced growth in the past 14 years and where real salaries are half what they were a decade ago. We remember that drama very well, but the initial priority in our process of reconstruction was hyperinflation, because hyperinflation renders economic calculations useless, both in the public and private sectors. Consequently, there is neither profitability nor investment; there is only an erosion of salaries and impoverishment.

We understand perfectly well that inflation in Argentina can be traced to various causes and that it has had stages of different intensity. There is no doubt, however, that the recent bankruptcy of the state and its refusal to admit its bankruptcy acted as triggers of a potentially fatal process. Therefore, it is here that we began our effort to transform the Argentine state, both in its short-term financial operation and in its entrepreneurial and administrative structure. This effort explains the privatization of public properties, the solution to the internal debt, the punishment of tax evaders, the reduction of nonproductive expenditures, the emergency taxes, and

the measures to bring about deep structural changes that go beyond those necessary to overcome an adverse cyclical situation.

Let no one be mistaken or deceived: The transformation of the state, the privatization of public enterprises, the elimination of regulations, the administrative streamlining, the straightening out of fiscal accounts, the opening to the world, and the elimination of unnecessary controls are not meant to raise an auction banner over the national state. On the contrary, these measures are mechanisms for the recovery of the state's sovereignty; its ability to govern; its indispensable presence in those sectors in which it cannot, must not, and will not be absent. [applause]

Let us be frank. We Argentines have for years been deceived by a fatal mirage. We saw the image of the state, where there was nothing but bureaucracy; we saw the image of the government, where there was nothing but impediments; we saw the image of service, where there was nothing but exploitation. The result was painful, and the consequences are still being felt. Is there any teacher who was well paid by an overprotective state? Is there any physician who was professionally gratified by working in a public hospital? Is there any law enforcement officer who was well paid for risking his own life? Is there any humble Argentine who benefited from rapid court procedures, from a dignified health care system, from effective public service?

Naturally, the transformation of the state necessarily calls for a restructuring of the public enterprises. We want public services that are efficient. We want to retain in the hands of the state only those public enterprises that are structurally needed for the nation's development, growth, and production. We want the state to pull out of entrepreneurial activities that can be performed by the private sector. As for public services, the state will oversee those services operated by the private sector so as to guarantee their efficiency and reasonable charges.

Our objective is to have a state that can concentrate on strategic and essential functions that it should have never failed to perform; namely, education, justice, health, government, and security. We believe that this is the most powerful and suitable revolution of our times. However, this revolution will prove to be impossible, regardless of the good intentions and courage displayed by the state, if the private sector does not support it.

It would be naive and irresponsible to view the task of rebuilding our economy as a job for the state alone. Especially so, since we have had to shoulder the burden of change without any foreign assistance and in the midst of an inherited distrust, a distrust that we have been assuaging day after day by fulfilling our objectives and by establishing firm and realistic goals. Thus, a joint, shared, and simultaneous effort is necessary.

A great deal must still be done to make our private enterprises competitive; to make them take new risks and try out management innovations; to ensure that

taxes are paid honestly; to demonstrate trust not only with words but also through deeds, such as by making genuine investments and putting an end to the flight of currency abroad.

As you can all see, we do not overestimate the advantages of a temporary stabilization of the market, because this stability will remain temporary as long as we fail to comply with our duties and to make our share of sacrifices.

We know that much needs to be done. The state has yet to make many adjustments and the private sector has to get used to the new conditions of freedom and responsibility. Now that the crisis is over and the initial consequences of hyperinflation have been overcome, we believe that we are faced with the crucial task of implementing the necessary fiscal adjustment, while at the same time creating the conditions that are essential for growth.

This is the task that we must carry out over the next few months. We want a genuine reactivation, not a false reactivation that would prompt another outbreak of inflation.

This government will oversee this sensitive process very closely to make sure that the variables do not get out of line. Now that inflation is under control, it is to be expected that the structural changes that we have launched will motivate the private sector to increase the growth rates to a level that will ensure a significant increase of the per capita income in the medium and long terms.

Today, bearing in mind the suffering we have experienced and the need to be prudent, we can say that there are signs of an incipient recovery from the deep recession that plagued our country during the first half of 1989.

My administration's popular market economy is above and beyond ideological whims, party considerations, factional dogmas. It is intended to be a genuine and original proposal in keeping with the loftiest of national interests. We repudiate the idea of a totalitarian state that rules individual behavior and asphyxiates initiative, but we equally repudiate the idea of a state that is indifferent to outrageous social unfairness. [applause]

We want to build a state capable of guaranteeing common well-being, social coexistence, economic growth, and a fair distribution of wealth. We firmly believe that underdeveloped countries are badly managed countries. Thus, our basic goal is to attain a model of economic development that would be compatible with political democracy.

Let it be clearly understood that we want a popular state, not a populist one; a national state, not a chauvinistic one; a free state, not an anarchistic one; a state that belongs to all the Argentine people, not one that is a slave to a single political party, a labor union, or a business association. [applause]

Honorable Congress, the process of deep change that we are advocating would not be all-encompassing if we were to neglect to take into account the remarkable changes that are taking place elsewhere in the world.

The administration's mind is reaching out into the world while its heart reaches out to all Argentines. Our administration is sovereign, because sovereignty means seeing the rest of the world as an opportunity rather than as a threat. Our administration does not believe in ideological barriers, because the only barriers that interest us are those that block our quest for progress, development, commercial growth, cultural exchange, free self-determination, noninterference in domestic affairs of other peoples, and universal peace.

We must make a major effort to achieve the broad-mindedness necessary to fully comprehend what is going on in a world where borders are changing and new maps are being drawn, a world of overall changes prompted by the dynamics of history and the actions of peoples who want more freedom and more democracy.

We cannot take the political approach of clinging to stubborn and stagnant ideologies in this dynamic, changing, and swirling scenario. To do so would be contrary to our national interests, a sign of intellectual and colonial dependence.

Thus, we choose to believe in a nation with a capital "N" rather than in petty nationalisms. Today, not only communications, but ideas as well, shorten distances between peoples of the new century. They unite mankind around the same universal ideals, the same dreams, the same endeavors. The death of ideologies does not mean the death of the people's quest for utopias. All it means is that there is no more room for ideologies that present a factional and biased view of the universe; that constitute closed, mutually exclusive, and isolated circles; that purport to be artificial paradises while gradually drowning their inhabitants in hopelessness, emptiness, and oppression disguised in a thousand different ways—in sum, nothingness.

Argentina believes in a partnership with the world rather than in being dependent on the world. It believes in integration rather than in individualism, in participation rather than in isolation, in practical idealism rather than in dogmas that are impossible to carry out. It believes in realistic interests rather than in whimsical principles.

We Argentines must forsake our colonialist turn of mind, which makes us believe that all our evils come from abroad. If we continue to think this way, we will reach the conclusion that no amount of effort, will, or courage will bring us near a solution.

A nation is what it makes of itself and the way it goes about it. A nation must look for opportunities rather than for excuses; it must think about the chances of success rather than about the risks it will run; it must look for new horizons rather than cling to old ground.

Brothers and sisters, we must realize that no nation attains sovereignty and freedom once and for all. Freedom and sovereignty require constant maintenance; they are a daily goal, a lifelong commitment. Freedom and sovereignty must be fought for; they are not a gift or a grant. Our freedom and sovereignty are the result of a long-standing struggle. We started out on the battlefield in 1811, and now we must continue this struggle in the factories, the schools, the government, the universities, and the enterprises. Freedom and independence are often won in battle and lost because of a lack of awareness.

I want an Argentina that will be part of the world, a nation that will have its roots in this soil and the wings to fly out into the world. I want....[applause] I want millions of Argentines to be the standard bearers of our sovereignty, the messengers of our independence, the ones that make our best projects come true. The West and the world as a whole are waiting for our contribution. They are waiting for us to assert ourselves, not to fall apart and be enslaved.

Our concept of sovereignty and national defense forsakes ideas that have been rendered obsolete by more than 50 years of political evolution. It would be stupid to cling to positions that prevailed before World War II, after World War II, during the cold war, or during the time when the world was divided into two extremes at the expense of national identities and worldwide tension was at suicidal levels.

The world I have just described belongs to a century that is almost over; to a millennium that is past. We are humbly and honorably prepared to topple every barrier, to knock on every door, to tear down every wall to defend the only interests that a nation as a whole should care for: national interests.

We have begun by tearing down our own walls, those that made us narrow-minded, those that made us cling to meaningless ideologies and rhetoric that did nothing to further the interests of our nation. We have done so because to win the right to participate in world affairs we must first put our own house in order. Our foreign policy is intended to turn those ideas into actions.

The growing improvement in the international situation and the great changes taking place in important regions of the world are helping create an environment full of challenges and opportunities for the Argentine Republic.

To take full advantage of the rich potential of that international situation, it is necessary to eliminate the risk of conflict with other countries. It is also necessary to strengthen our credibility in the world, and to work decisively to solve the priority economic issue that is creating so much anguish for the people.

Our foreign policy goals are simple and concrete. We want to make progress toward solving the conflicts in which we are involved. We want to strengthen our friendship with all countries, and we want to expand our trade and cooperation with the Americas, Europe, and

other regions of the world. As I said in my inaugural address before this honorable assembly, our sovereign rights over the Malvinas Islands, and the South Georgia and South Sandwich Islands are the priority issue, the most important issue for our foreign policy. [applause]

The basic objectives of our actions were to resume constructive dialogue with the British Government and to recreate a bilateral framework of friendship and cooperation between the two countries that will allow us in the future to solve the territorial dispute peacefully and through negotiations. This policy yielded fruit in the agreements reached in Madrid on 14 and 15 February 1990. The joint declaration signed on that occasion served as a basic framework for various agreements and measures to restore relations between Argentina and the United Kingdom on a firm basis and with mutual trust. At the same time, the preservation of our country's irrevocable rights over the territories in dispute were assured under the so-called umbrella of sovereignty. These rights are intact, in reserve until the two governments begin the search of a lasting solution to this matter.

While speaking of this crucial issue, I would like, for the sake of our historic memories and of our country under construction, to welcome the new Province of Tierra del Fuego, recently created by a law approved by this honorable Congress. [applause]

Furthermore, I cannot fail to point out the great importance of the new political and economic situations that are emerging on the continent, offering great possibilities to the countries of the various regions, which can now, without losing their individuality, develop a joint presence in the international arena. We firmly intend to move ahead decisively and dynamically toward the unity of Latin America by giving impulse to its integration. Our practical actions in this field have resulted in the strengthening of the regional mechanisms of consultation and in the signing of bilateral agreements to create greater economic integration among the countries of the region. Naturally, we are putting great emphasis on relations with our neighbors.

Regional integration is a necessary step prior to continental integration, in a broad sense and resorting to imaginative and concrete measures. Important aspects such as drug trafficking, environmental conservation, and terrorism, are also a constant concern. Argentina is determined to translate this concern into action, because these problems have a decisive affect on our lands and development. Despite all the difficulties, we are aware of the great historical opportunity offered to us. The atmosphere of trust and spirit of cooperation that prevails in this part of the world stand as an example of international coexistence. Using the democratic experience to stimulate economic growth and progress constitutes a crossroads and challenges our people and government.

Honorable Congress: I cannot give an honest and sincere account of my administration without mentioning two debts democracy still owes the Argentine people. I,

Carlos Saul Menem, president by the will of those who voted for me and the generous support of those who did not vote for me, affirm before this honorable Congress and my people that Argentine democracy has a social debt. Naturally, I do not want to pass up this occasion to note the strenuous efforts we have made in the various government areas to alleviate the emergency situation we inherited; providing food assistance, expanding school cafeterias and the health system, caring for and protecting the forlorn children, stimulating sports activities, optimizing house construction, and taking our social action to the most needy and suffering segment of the population.

The social debt refers to structural poverty conditions that Argentina should not have, given its immense potential and misused resources. This poverty is not reflected just by hunger, but also by the lack of a social, educational, sanitary, and economic infrastructure adequate for a dignified life in Argentina. This transformation must go beyond a simple provision of short-term assistance, and generate a sincere and profound debate over the Argentina we want to have in the next decade. We must set aside temporary palliative measures, and reach the heart of the matter to reverse the deep causes of that structural poverty. When we speak of structural reforms in Argentina, we are not only referring to structural poverty, but to structural unemployment, structural illiteracy, structural malnutrition, and to the many structural mortgages the nation must redeem if it wants to be a real nation in the future.

I therefore consider it indispensable to propose that each and everyone of us initiate a sincere debate and proceed with an agenda for the 1990's in which all interested parties; political parties; enterprises; labor unions; and intermediate social and economic institutions, must participate. I want to seize this great opportunity to call on the nation's best people to discuss and work out solutions that the Republic cannot afford the luxury of postponing, even if they are medium and long-term solutions. We should work on the most urgent problems, but we cannot postpone working on the most important problems. This work is both urgent and important for the government. What model of education do we want for our children? Which principles of labor legislation do we want to enhance Argentina's growth? What social integration will we offer to those who are not in the mainstream today? What kind of health, nutrition, judicial organizations do we want?

We need to abandon the old molds because we require new solutions to new problems. A country can never remain at a standstill because if it does not move forward it moves backward, if it does not evolve it grows old, if it does not develop it dies. In the name of God let us remember once more that if the country does not develop it will die for ever. [applause]

Therefore, regarding these important issues the government has made room for dialogue and participation which should be developed and enriched. This honorable

Congress has received a bill which the executive branch considers to be extremely important: the national employment bill. Mention of this bill today, labor day, should serve to recognize our glorious workers movement and to renew our commitment to all workers who are the basic pillars of our proposal.

For my government there is only one type of man, the one who works in legal activities, [applause] and of course those who were taken away from dignified work as a result of decadence and backwardness. Work is an essential human right which conditions the exercise of other social, economic, political, and even individual rights. Work is not simply merchandise or a price, it is a tool to make man happier, to fulfill his dreams in our society. Therefore, it is necessary to point out that our basic interest is to create jobs. We know very well that to govern means to create jobs. Now I would like to resort to figures, brief figures about the 33 million inhabitants of our country: 12.2 million are the economically active population, 7.6 million are fully employed, the remaining 4.5 million are underemployed and unemployed. There are 3.6 million Argentines underemployed and 900,000 Argentines unemployed. I would like to be sincere, a new census about this socioeconomic situation should be conducted to have real figures. What I am saying is that the country is broken in half; a half productive sector which should be activated and revived.

I cannot have peace of mind, I cannot be a happy president as long as these situations that cry out for our solidarity and action persist. This is why our national employment bill is aimed at priority objectives such as automatic legalization of nonregistered employees; new forms of hiring; occupational retraining; unemployed worker protection; combined actions on technological, educational, and occupational matters; collective bargaining as an instrument to regulate labor relations; all within the framework of current Argentine legislation. We think of those sectors that find it more difficult to enter the labor market, of heads of households, youngsters seeking their first jobs, women entering the labor market, people older than 45, the handicapped, unskilled workers, the long-term unemployed, and immigrants.

There are a series of measures our government has implemented and will adopt to temporarily alleviate the effects of the crisis. Among these measures, I can particularly mention the solidarity program, or emergency help, that has been implemented to reach society's neediest sectors without resorting to handouts; preserving personal dignity. Under this program, the beneficiaries will be remunerated for services rendered to society. We thus intend to recreate conditions for the work ethic, and do so with openness and effectiveness. The implementation of these emergency measures to help family units will be decentralized because, in our view, participation of provincial, municipal, and departmental governments, and charity organizations is vital. I

once again emphasize that these actions are only temporary and are not meant to obviate the creation of better macroeconomic conditions to bring about recovery and generate employment.

The executive branch has established an essential premise that it intends to apply with intelligence and common sense: There is no effective social policy without an efficient economic policy, just like an economic policy is not really efficient if it does not ensure the general well-being and does not guarantee the common good.

Congressmen: I believe that it is also important to briefly refer to other fundamental topics on the 1990's agenda that we must begin to debate. We think it is necessary to establish links between education, production, and labor in a structured transformation that should go hand in hand with the transformation of the community as a whole. Our five-pronged approach calls for educational decentralization, refederalization of education, active community participation, upgrading of teachers, and integration of the educational system, particularly at the university level. Each of these five lines of action is in progress. To ensure success, the participation, as well as the support, commitment, and understanding, of all members of our community is required. Each of us knows very well that undereducated people are spiritual illiterates. Here lies the importance of this matter.

Neither can I fail to note the existence of a participative atmosphere for designing the institutional reforms the country demands for its re-adaptation, its structural changes. Through the Commission for Institutional Reform, we have asked for debate on those fundamental measures that can affect the country's Constitution, the nation-province relationship, the country's electoral system, and regional integration.

We also began a process of political, economic, and social agreement which is essential for this government. We want the state, businessmen, and workers to share their responsibility for preparing the necessary measures to contribute a new profile of the country. Such a profile must include issues that should be resolved through dialogue, participation, and the commitment of social sectors without hesitation or delay. Reaching an agreement must not only represent changing a society into a more democratic one but also making it a real society.

The Argentine people will continue to discuss agreements on better regulations for competition; better use of public expenditures for social and educational issues; modernization of labor legislation; and all the necessary measures to carry out a profound transformation of the state, and the nation. Also, I cannot fail to point out actions implemented in our Armed Forces to reestablish the effectiveness of the military sector; the formation of joint commissions including civilian officials, representatives of the staffs of the Armed Forces, and the Joint General Staff.

These commissions concentrated their studies on ways to improve our military instruments, and to adjust them to the needs of modern warfare, and the possibilities of conflict. In this regard I would like to point out that the objective of our military strategy is deterrence and that in striving for this objective the Armed Forces will become a dynamic factor in national development.

I would like to reiterate my recognition of the military profession which has been tested under all kinds of material problems but which is committed to our democratic institutions and respect for our highest patriotic values.

Legislators, I believe that the areas of participation and discussions which have been opened at various levels of the national life are appropriate because they show that the Argentine people agree on many more issues than we sometimes believe.

Brothers and sisters, representatives of the people, there are many more policies or measures which are also important for fulfilling our mission. You received the list of these measures in the annex of this message which will be released to the Argentine people at the appropriate time. But I would also like to talk about the other great debt which democracy owes the Argentine people. Without deceit or sectorial assumptions, let me say that Argentine democracy has a moral debt, an ethical deficit, which it has not yet been able to overcome. Argentine democracy has a debt of honor and its leaders would be stubborn if they failed to admit this reality. Just as I said before that democracy cannot live with material poverty I would like to say now that democracy cannot live with moral deficiency either. [applause]

Material poverty and moral deficiency are closely intertwined because immorality breeds social have-nots. Thus, for me to mention our moral crisis is a duty, not an excuse. I must fulfill this duty very carefully, setting an example and avoiding slanderous or unproven charges. Just as I am not prepared to tolerate members of my administration turning this subject into fuel for an intraparty power struggle, neither am I prepared to accept impunity for, or indignities from, public servants.

The national executive branch has submitted a bill for consideration by the legislative branch which proposes severe punishment for crimes perpetrated by public servants. In doing so we seek to close a legal loophole which has become an obstacle to the solution of a very serious problem.

I want to unhesitatingly, fearlessly, and firmly reaffirm for all to here, what I have said from the very beginning of my administration: Corruption is tantamount to high treason, corruption is tantamount to betraying the Argentine Republic. [applause]

Democracy must annihilate immorality because otherwise the latter will annihilate democracy. This is a cruel option, but I would like to call upon each and every Argentine to reflect on the fact that this problem does not affect only a given sector or a given political party.

The private sector must also analyze this problem. We must reflect on the justice of a system which for years has burdened our economic activities with a mass of regulations. The fact that it is complex, all-encompassing, and enormous, does not free us from the need to make a personal, individual evaluation of the problem.

We must give up the colonialist belief that a president is a superman capable of resolving everything through decrees. The president, his administration, and the nation's leaders are not the only people in Argentina; there are 33 million Argentines, 33 million leading actors, 33 million minds that have to rebel against mediocrity and resignation. I would be much gratified if each and every Argentine, if each and every leader, if each and every one of us, were to actively engage in a nationwide soul-searching campaign.

There is no point in deceiving ourselves, lying to ourselves. If Argentina is not where it should be it is not the result of an act of God, or a curse. Our society has become infected with unhealthy habits which cannot be cured with a period of economic buoyancy, of improved state accounts, of stable exchange rates. Today many Argentines do not trust their country. I repeat, many Argentines do not trust a country in which they are the leading actors, the witnesses. That is to say, many Argentines do not believe in themselves.

What is happening to us? What are we waiting for? What are we prepared to do to overcome this situation? If it is true that we lack material resources, that many of these resources are badly distributed, it is also true that we should have more than enough spiritual resources to embark on the reconstruction of our fatherland. Without this spiritual force any change achieved will be temporary, the result of fleeting enthusiasm.

When I took upon myself the responsibility of leading our country, I called upon my country. I said: Argentina, get up and walk. Today I have come here to say that the resurrection of a country is a moral matter rather than an economic one. It has no price tag, it requires willpower. It is not a merchandise, it is an invisible national mystique, a mystique of hoping against hope, a belief above and beyond pessimism, a driving force that overrides the pull of sirens' songs that call from the past. Argentina is now standing, it will be able to take its first steps as a nation only if we are capable of accepting our worst evils and drawing upon our most deep-rooted strength and traditions.

This is the cause that I have come here to plead and I begin by pleading it with myself. We must question ourselves in depth about this crisis. What have I, as president of the nation, done to defend national interests, to interpret correctly the demands of my people?

What has each politician done to set the example, to live the way one thinks and to think the way one lives? What has each entrepreneur done to multiply wealth, so that capital will not fly but be invested instead? What has each union leader done to commendably represent the

workers and defend the common good? What has each of us done to transform the many Argentinas —unequal, unjust, contradictory, hidden—that now exist into a single and great Argentina, into a new and glorious nation for ourselves and posterity? These, I believe, are some of the questions Argentines should ask today, especially those who have high and serious responsibilities. Beyond all the government policies, all the measures we are implementing, all the right and wrong things that have been done, all the partial successes and permanent failures, this 1 May makes sense if each one of us asks himself about the essence of our national crisis. To be an Argentine is not a casual matter, but a conviction. Argentina, more than a destination, is a road that must be conquered. [applause]

Now, as president of the nation, I ask that in each home, each family, each household, in each corner of the fatherland, we observe a minute of silence, a minute of reflection, not to think what we will ask of our country, but to think what we will give to our country, because to give is to receive. [applause]

I hereby declare the hundred and eighth period of extraordinary session of the Honorable Congress of the Nation open. Thank you very much and may God bless you. [extended applause]

Ambassador to UK on New Province with Falklands

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[Text] Buenos Aires, 2 May (TELAM)—Ambassador-designate to Great Britain, Mario Campora, today stressed that "I do not believe" that the inclusion of the Malvinas Islands as part of Tierra del Fuego Province will "hinder" bilateral relations with the United Kingdom.

Campora made some brief remarks at Government House after meeting with President Carlos Menem prior to his trip to London on 10 May where he will take charge of the Argentine Embassy in Great Britain.

Asked whether the inclusion of the Malvinas in the new Tierra del Fuego Province could become an obstacle for him and the job he will take up in London, Campora said "in no way," because the two governments respect the clause pertaining to the reservation of the right to sovereignty over that territory.

He added that the understanding between the governments of Argentina and the United Kingdom over respect for that clause has already been demonstrated.

He reported that he had met with the president to receive instructions and to inform him of the study of the new bilateral relationship that will include trade among other aspects.

his campaign image as an adventurous, fun-loving playboy was damaging his reputation as a serious leader, and he has made a concerted effort to be perceived as a responsible statesman. (S NF)

Courting the First World

Menem has been able to change his image in part because he has improved relations with the West by shifting Argentina's foreign policy focus from the Third World toward industrialized countries. He achieved a major breakthrough when he restored full diplomatic relations with the United Kingdom in March 1990 by temporarily putting aside differences over the Malvinas/Falkland Islands. He has traveled throughout Western and Eastern Europe, hoping to improve bilateral trade relations and plans to visit Japan in November. (U)

Menem places great emphasis on his relationship with the United States. He met with President Bush in Washington in September 1989 and in New York in October 1990; he believes that he has established a good personal relationship with the President, according to US diplomats. Menem was the first Latin American leader to commit military forces to help enforce boycotts against Iraq for its invasion of Kuwait in August. He has stated that the Enterprise for the Americas Initiative is in line with current Argentine economic policies on trade and investment, and he is supporting a regional response to the United States. Menem also has tried to eliminate bilateral irritants such as the Condor ballistic missile program; he has signed a decree to terminate that program, according to US diplomats. (S NF)

Dealing with Menem

Menem, who is likable and unassuming, is open to US influence. In our view, he reacts best to those who apply his technique of seeking common ground and avoiding confrontation. He does not respond well to being pressured or backed into a corner, but he is willing to listen, learn, and compromise. He is most comfortable in casual settings where he can establish rapport. Menem prefers informal dialogue to long presentations; he has a short attention span and defers to his ministers on details. He has a good sense of humor and is quick witted. (S NF)

At Work, Play, and Home

The son of Syrian Sunni Muslim immigrants, Menem was born on 2 July 1930. He received a law degree from an Argentine university in 1955. A wealthy landowner in La Rioja Province, he served as its Governor during 1973-76, 1983-87, and July 1987 - 1989. His first term ended when the military ousted then President Isabel Peron; Menem spent the next five years in prison and internal exile. Although Menem's second administration won praise for boosting economic growth through tax incentives to the industrial sector, his third term was characterized by a bloated provincial payroll and chronic budget deficits. Menem gained control of the Peronist Party leadership in August 1990 and designated his brother Eduardo as interim party president so Menem could focus on his duties as head of state. (C NF)

An adventurous spirit, Menem enjoys flying and racing cars and boats. He is passionate about soccer and often plays with local clubs, demonstrating his accessibility and enhancing his image as a man of the people. The President also enjoys tennis, which he plays on a regular basis. Menem, a convert to Roman Catholicism, is married to Zulema Yoma, a Muslim of Syrian descent. The couple recently separated for the second time because of Mrs. Menem's outspoken opposition to her husband's policies and her political alliances with his opponents. The Menems have two children, Zulemita, 18, and Carlos, 21. Menem's brother Eduardo heads the Peronist Party, is president of the Senate, and is one of the President's chief advisers. Another brother, Munir, is Ambassador to Syria. (C NF)

Carlos Saul MENEM
(Phonetic: MEHnehm)

ARGENTINA

President (since July 1989)

Addressed as: Mr. President

President Carlos Saul Menem is attacking his country's complex political and economic problems with difficult, unpopular solutions. Menem and his Cabinet are steadily reversing decades of economic decline, ameliorating serious civil-military tensions, and modifying the electoral system to allow for his reelection as President. His free market economic reforms, pardons for military officers charged with human rights abuses, and actions to reorient Argentina's isolationist foreign policy are meeting substantial resistance from opposition parties, from labor groups, and even from factions within his own party, which emphasizes the status quo. (C NF)



Building Domestic Support

Menem's strategy, in our view, is to build a cult of personality—*Menemismo*—around him similar to that of his political mentor, Justicialist (Peronist) Party's founder and former President Juan Peron. For example, Menem recently contended that political parties were losing their credibility because of their inability to agree on the need to transform the country, noting that an individual leader is more important than a party. In preparation for the 1991 provincial gubernatorial elections, Menem is ignoring party affiliations and seeking fresh candidates willing to back him and his program. (S NF)

Menem has cultivated an image as President of all Argentines, and he has refused to limit his potential support base—or to kowtow—to traditional Peronist supporters. He has made tactical alliances with a broad range of groups to consolidate support for his economic program and, in our view, to generate a sense of "shared burden" for the program's initial recessionary impact. He has turned to the conservative Union of the Democratic Center Party, for example, to assist with privatizing unproductive public enterprises. He frequently calls on independent experts, labor officials, Buenos Aires business leaders, and members of the opposition to consult with his economic team. (S NF)

Menem also has capitalized on opportunities to weaken opposition leaders and groups. Early in his presidency he encouraged a split in the labor ranks by supporting and later officially recognizing a rival faction of the Peronist-affiliated General Congress of Trade Unions. He has worked continuously to drive a wedge between the two major opposition Radical Party leaders by courting one of them and attacking the other. (S NF)

In our view, Menem's adaptive nature, astute handling of special interest groups, and intuitive ability to read his constituency have helped him to survive and push his program forward incrementally. He weathered early slumps in the polls during a period of hyperinflation by allowing government officials to take the fall, but when he recognized that the disorganized reputation of his economic team was hurting his image, he appointed a longtime political ally to head the Economics Ministry, expanding the appointee's authority and making him the official spokesman for government policy. Menem also recognized that

Capital Flows South

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By Rodolfo A. Windhausen

WHILE most Central and Eastern European economies are still in turmoil over political and social changes in the Soviet Union, stock markets in Latin America have emerged as the fastest rising markets in the world, according to the International Finance Corporation (IFC) and several private sources.

The 1991 edition of the IFC's "Emerging Stock Markets Factbook" lists Venezuela at the top of the 1990 list, with an impressive 572 percent increase, followed by Chile, up 31 percent, and Mexico, up 25 percent. (In the case of the latter, the figure differs with estimates made by Mexico Service, a US-based investors' counseling service, which placed the Mexican Bolsa increase at 50 percent in peso terms for 1990 and 37 percent in dollar value for the same period.)

In Argentina, the Buenos Aires Stock Exchange has increased its volume of operations at least five-fold since Economic Minister Domingo Cavallo "dollarized" the Argentine economy and began implementing a new economic program in April. The reforms have reined in inflation at a record low level of around 1.5 percent a month.

According to the IFC's factbook, the existence of a number of world-class companies in the developing world has become evident to investors since 1990. As an example, it underscored the fact that Latin American companies, particularly Mexican and Venezuelan, have raised almost \$1 billion in debt and equity directly in industrial markets, which would have been unthinkable a few years ago.

Mexico Service has attributed the Mexican Stock Exchange's successful performance during this year's first semester to "favorable developments on the financial and privatization fronts." At that period, the Bolsa index soared 50 percent and posted about 65 percent gains in dollar terms, cresting a record 1,131

points on June 6. The forecasting service also underlined the unexpectedly strong performance of Telefonos de Mexico's shares, which have been among the most actively traded stocks on Wall Street since their massive international placement last May.

Chile, whose economy is among the healthiest in the third world, benefited not only from a longstanding stability but also from a 19 percent reduction in foreign debt granted this year.

Venezuela's economy, for a decade virtually ignored by foreign capital, has seen market capitalization increase about 491 percent in dollar terms. From 1985 to 1990, the Venezuelan market returned 631 percent to its investors, with a five-year annual return averaging 35.9 percent through 1990.

ARGENTINA'S tiny stock market, founded in 1854 and the oldest in Latin America, has been shocked by a sudden influx of foreign capital. Its operations, dormant for a long time, are now as lively as any in the traditional markets. Market capitalization has reached \$5.7 billion and keeps growing.

According to private financial sources, the average daily stock volume has grown from \$309 million in 1986 to \$852 million in 1990. With an average annual return of 26 percent, the Argentine market has risen an impressive 361.1 percent since 1986.

In Chile, foreign investors have bought \$866 million worth of shares in the last 12 months, and the price-to-earnings ratio climbed from 6 to 11, although in Argentina is still around 5 to 6.

Economists point out that Latin America looks far more stable now to potential investors than any other area in the world, perhaps with the exception of Southeast Asia. After all, the region's 7.9 million square miles, more than double the area of the US, is rich in mineral and agricultural resources and increasingly open to large investment ventures.

Venezuela's oil reserves alone - 58 billion barrels - surpass those of most of the volatile Middle East countries, while Mexico

is still the fourth largest exporter of crude. Chile has a third of the world's copper. Argentina is a major beef and grain supplier to the world, but is also an emerging industrial power, bolstered by its new partnership in the Southern Cone Common Market (MERCOSUR).

Although some Latin American stock markets have not risen to the same level as those of Venezuela, Mexico, Argentina, and Chile, the rebounding from a decade of economic stagnation is already attracting many US, European, and Japanese investors.

Highly successful debt and equity investments, international debt issues underwritten by major banks or corporations, and similar financial projects are giving out signs of a confidence in Latin America as an investment area. Privatization, according to the IFC, will increase the size and liquidity of those markets.

All indicators seem to point to one conclusion: Latin America already has become the new economic frontier for big investors. The unfavorable economic climate in the East and the emergence of the European Community as a new economic superpower that may rival the US have made many capitalists uneasy about possibilities to expand into those areas. In contrast, Latin America appears to have quieted down and be firmly on the path to economic transformation.

As a sizable chunk of the world's economy - with a \$900 billion combined gross domestic product (GDP), fairly stable democratic regimes, and a steady expansion of trade - Latin America is in the middle of a transition toward privatization that could finally transform it into an entirely new economic landscape.

If that is the case, the long-awaited Latin American revolution may turn out to be more the offspring of peaceful economic changes and an influx of foreign capital than, as once believed, the result of blood and gunfire.

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