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Argentinian Crisis Revisited

Crina Baltag (Managing Editor) (Stockholm University) · Sunday, January 27th, 2013

So you placed your bets on Argentina's recovery after the 2001 crisis? It is not too late to give it another thought. While Argentina's economy grew by approximately 9 percent in 2011, it fell dramatically in 2012 to around 3 percent. The (unofficial) inflation rate is set to 25% and the dollar reached a staggering 7 pesos mark on the black market. Another collapse of the economy in the near future? Probably. And there are more signs.

Cristina Kirchner's plan to redress the economy hit hard the Argentines enjoying a brief period of rest after the last crisis. The last months of 2012 saw the streets of Buenos Aires filled with thousands of protesters demanding tax cuts and lower inflation rate, while questioning the policies promoted by the government. One of them is the controversial Media Law which aimed at breaking up media monopolies (apparently one in particular, which constantly raises its voice against Kirchner administration). Another measure tightens the control over pesos-dollar exchange (apart from the dogs trained to sniff out dollars in the airports). Argentines may buy dollars on the official market only if they travel abroad and subject to heavy restrictions. While there are no official statistics on this (in August 2012 the [government stopped publishing](#) them), the real estate market is inert since the government implemented the dollar related policies.

But the measures taken by the Argentinian government are not limited to its own nationals. Several nationalizations were promoted during Cristina Kirchner administration. Probably the one with the loudest echo took place in April 2012 when the government nationalized the majority stake in YPF, Argentina's largest oil company which was then majority-owned by Repsol, the Spanish energy company. It didn't take long for Repsol to file a claim with the ICSID, as Argentina failed to pay the amount asked by Repsol, and for the European Union and Spain to take measures against Argentina. Other nationalizations include over ten private pension funds and the main Argentinian airline company.

The policies promoted by the Argentinian government are also directed to the importation of goods. 2012 brought excessive bureaucracy, together with delays in granting import licenses. These restrictive measures are said to encourage national industries. The reality is that they prevent industries from receiving essential products and materials. The government also increased the restrictions on the repatriation of export revenues of energy and mining companies. Many foreign companies decided to leave Argentina. Escada, Calvin Klein, Louis Vuitton and other luxurious brands left the country complaining about the import restriction and limitations on the repatriation of profits.

Meanwhile, the [fortune of Kirchner family](#) soared by 900 percent, from around 2 million USD in 2003 when Nestor Kirchner became president to 18 million USD in 2011. But Cristina Kirchner seems to be more concerned with the 500,000 USD [refurbishment of her bathroom at the Casa Rosada](#), the official residence and office of the president in Buenos Aires, and the claims over the Falkland Islands (Malvinas), while trying to win the electorate's approval by organizing a [grand welcoming party for the military vessel Libertad](#), recently released from Ghana.

For now, the response of the affected countries against Argentina is limited. Not much can be done against a country which in 2006 paid its debts with the IMF. The European Union, the USA and other countries filed a complaint against Argentina at the WTO with respect to the measures imposed by Argentina on the importation of goods. That's about it. Investors will probably place their bets, once again, on the ICSID and the Bilateral Investment Treaties signed by Argentina. Fifty ICSID-based arbitrations against Argentina are reported – out of which twenty-five still pending – and majority are related to the 2001 collapse (not to mention the other hundreds or so of court proceedings). There are rumors that [Argentina plans to leave the ICSID](#), joining the other South American countries that elected this path: Bolivia, Ecuador and Venezuela. The summit of the Community of Latin American and Caribbean States and the European Union, currently taking place in Chile, seems to be an opportunity for the UNASUR (the Union of South American Nations) to discuss the establishment of an arbitration center as an alternative to the ICSID.

Some might be rubbing their hands and wait impatiently for the next arbitrations coming with the next Argentinian collapse. Others might just be getting their dollars and prepare for another great opportunity to buy cheap high-end Argentinian properties.

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