

# Thinking globally

Business



## Thinking Globally

1. Argentina is currently facing a higher rate of inflation. The inflation rates have soared to over 26% by 2012. It is expected that this will continue going up especially as the value of peso continues to weaken. In addition to this, the rising cases of inflation have led to lack of employment, insecurity, and loss of foreign investors. The financial capability of Argentina was in doubt in the 90's after defaulting \$155 billion of public debt in early 2002. In a bid to prevent the inflation and huge debts, the Argentine President Duhalde fixed peso at parity to dollar through a currency board. However, that did not sustain the currency as it lost two third of its value. It was not wise to cut the link between peso and dollar since that only raised Argentina's debts making it quite difficult to pay. The link between peso and the dollar is also a reason that contributed to inflation. That is because many of the US companies owned \$46 billion of government bonds[Joh13]. The companies traded in US \$ and once the peso currency lost its value, Argentina's debts increased. Moreover, those traders that operated in peso currency found it rough to pay their workers due to the inflation.

2. Local companies tried to adapt to the problem by trying to send their money abroad to avoid inflation. However, Argentina's central bank ordered all companies to receive clearance first before engaging in such transactions. For this reason, companies had to wait for several months before receiving authorization. In addition, the government ordered that payments be done in dollars something that also made the companies to pay extra in comparison to the value of peso. The companies were forced to operate according to the Argentines policies despite entering the country in the 90's with the wave of free market. Most of the US companies that were forced to collect their

revenues in peso had no otherwise but to submit to the authorities and incur extra costs that were dollar related.

3. In case of rising inflation, the citizens are usually the worst hit. That is because inflation comes with many disadvantages such as loss of jobs. It also becomes very expensive for the citizens to conduct their daily activities since food products and other services become expensive. Immediately after President Duhalde announced the ties between peso and the dollar, the economy collapsed and the citizens reacted angrily by attacking politicians, banks, and culminating in protests in the streets over the high cases of inflation. For over a decade Argentina has been amassing debts that it is unable to pay to date. That means that for over a decade now Argentina's citizens lost their spending power due to inflation. Everything becomes expensive and citizens are forced to depend on donations to sustain their lives. In addition to this, ordinary Argentines are unable to save any money since the little they get they use it up to fend for their daily activities. Furthermore, the frequent donor aids are not doing any good to the Argentines but simply adding more debts to the already existing debts.

#### Works Cited

Joh13: , (John J. Wild 247),