

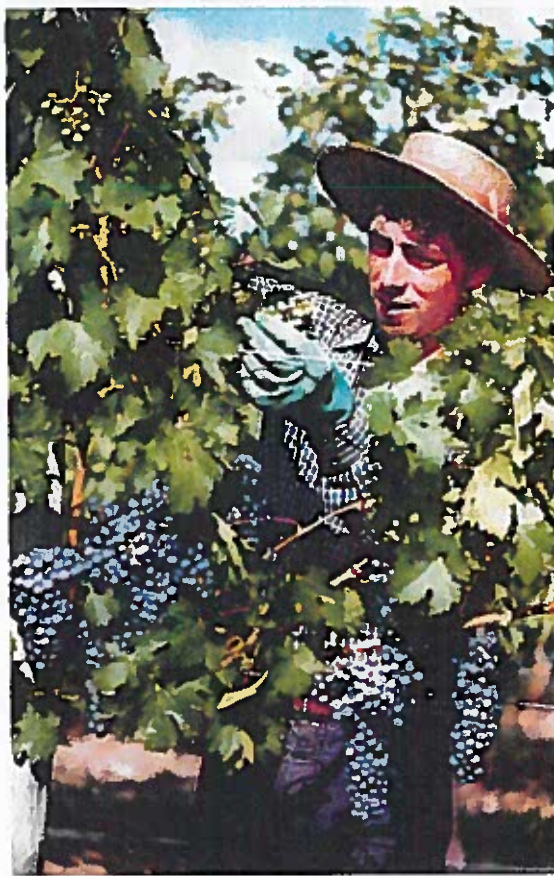
A Province That Works

Rural Mendoza is managing its debt and creating jobs

BY CAROLYN WHELAN

IN 1835 CHARLES DARWIN DESCRIBED the Argentine province of Mendoza as having a "sad and disagreeable aspect," and he noted that the population in recent years had suffered a "fall in prosperity." Few people could dispute the famed scientist. Mendoza, a western region wedged between Chile and the fertile Pampas, has always been a tough place to live. It's got a dry climate, cold winters and is prone to earthquakes. (An 1861 temblor destroyed the province's capital, also called Mendoza.) But the province's harsh living conditions bred a resilient, "do or die" attitude among its inhabitants—a work ethic that seems closer to Chile's Germanic influence than Argentina's Italian flair. Mendoza, in fact, was part of Chile until the late 18th century. Over time that tenacity enabled Mendocinos to carve out a decent living from the hardscrabble environment.

These days Mendoza is doing even better. Of Argentina's 26 provinces, it's one of the few that is flourishing. That's a relative term in a country that suffered through a major depression in 2001 and 2002, but the province is showing that some places in woe-begone Argentina can manage their debt, attract foreign investors and create jobs. Though remote, Mendoza boasts one of Argentina's lowest unemployment rates (9.3 percent, 40 percent lower than the national figure of 15.6 percent) and the median income of its 1.5 million people is one third higher than the national average. Though water is precious, Mendoza has become a major exporter of fruit (apples, peaches, plums, pumpkins) and vegetables (soybeans and corn). Dallas-based businessman Stewart Elliott—who's partnered with Ward Lay



GOOD FOR INVESTORS: A vineyard owned by a U.S. firm

How has the province set itself apart even while the rest of the country has floundered? One reason is that Mendoza values fiscal responsibility. During Argentina's worst-ever economic crisis, the province paid off its bondholders—though it was late doing so on several occasions. Unlike several Argentine provinces, it has never de-

stunning mountains, which draw many tourists, Mendoza is investing in high-value technology and service companies. The province has hatched a public-private institute that brings together leaders from local industries to find new business opportuni-

ties in fast-growing niche markets. The goal: to make more products like grape crushers and metal wine tanks locally and reduce the region's dependence on costly imports. "We want to supply more goods to our leading tourism, wine, agribusiness and oil sectors," says Gabriel Fidel, Mendoza's economics minister. "It makes our economy more competitive and keeps value here."

One recent brainchild of the institute is Pragma Ingeniería, a bioengineering offshoot of the engineering firm Cervantes Gas. Pragma sells blood-analysis products to local hospitals and aims to start exporting them soon, starting with Brazil and Chile. Its creation bodes well for a nascent bioengineering industry. In addition, organic farms that meet Europe's tough pesticide-free standards are beginning to sprout up in the province. One sign of the business buzz: in the 12 months ending in May 2003, the number of people employed in Mendoza's construction, hotels, restaurants and other service companies jumped by about 30 percent.

The boom looks set to continue because of smart infrastructure investments. Most of Mendoza's exports are trucked to ports in Chile or to Buenos Aires, and then shipped to other countries. But in 2006 a new Tren Trásandino (cross-Andes) rail line should come into service. Provincial officials, who championed the idea, say the train line will cut Mendoza's transportation costs for many goods by as much as two thirds.

Mendoza is by no means free of problems. One re-

cent U.S. buyer of a vineyard said his real-estate agent encouraged him to evade taxes. And there is a certain blue-blood snobbishness to the place, according to people in Buenos Aires. Still, as David Rose, a Santiago-based investor, says, "Mendoza seems more developed than other Argentine provinces." The province doesn't get visits from too many luminaries like Darwin anymore, but those who do come are impressed.

During Argentina's worst-ever economic crisis, the province actually paid off its bondholders

of the Frito-Lay dynasty to sell wine from the province—says that Mendoza "has the optimum conditions for foreign investment," among them, low costs, few regulations and hardworking people. "In the desert, it's very hard to get something from nothing," says Francisco Seufferheld, a Mendoza-based llama farmer, investor and entrepreneur. "Other provinces call us the Venetians of Argentina because we see opportunities where others don't."

faulted on its debt. The province's deficit as a percentage of government revenues has fallen to 2.4 percent, down from 15 percent to 24 percent between 1999 and 2001. The government posts budget and debt numbers on the Internet. Those are achievements in a nation notorious for profligacy and corruption. Argentina just scored a dismal 2.5 out of 10 on Transparency International's Corruption Perception Index.

While best known for its cheap land and