

May 19, 2003

## THE ECONOMY

# A Cheap-Peso Boom

BY CAROLYN WHELAN

**A**rgentina has found an economic formula that works: export more, import less. The peso, once pegged to the dollar, is now worth about 30 U.S. cents. That's been a boon to the country's export industries. Sales of beef, honey and soybeans have skyrocketed, albeit from a rock-bottom base. In addition, the export wine industry is thriving, and tourists are flocking to Patagonia. With land and labor costs relatively cheap, well-off Argentines and expats are building homes and buying ranches. Real-estate agent Ernesto Serigós, based in Bariloche, reckons he's sold more properties in the past six months than the previous four years. Meantime, imports have plunged down nearly 50 percent last year.

Analysts are split on whether this mini-recovery can last and help the impoverished majority without jobs, land or dollars. Optimists note that industrial production is surging, and the economy is expected to grow this year by a respectable 4 percent. Bears counter that Argentina is hamstrung by debt and volatile commodity prices, and lacks a long-term growth strategy. Even the most sanguine foresees sluggish growth and a widening wealth gap if presidential front-runner Néstor Kirchner pursues a populist agenda. "Under Kirchner we won't have the 8 percent growth we're capable of," says Aldo Abram, a Buenos Aires-based economist with the consultancy Exanta. He thinks that the unemployment rate, now about 20 percent, won't fall to even 12 percent until 2009.

Though emerging-market funds are now smitten with Argentina, most institutional investors and multinationals haven't returned yet. "You need a far tighter fiscal policy to attract foreign direct investment," says Jules Mort, a Latin American fund manager at Threadneedle Investments in London. "We're a long way from seeing improvement there." Still, new South American trade deals should boost exports even further, and the knock-on effects could be considerable. Pacts with Chile and Mexico are in the works. "Argentina needs a true domestic economy with much more internal production of value-added goods," says José Luis García, head of Latin America equity investments at MFS Investment Management in Boston, Massachusetts. "Now it's got a better shot."