

## FORTUNE

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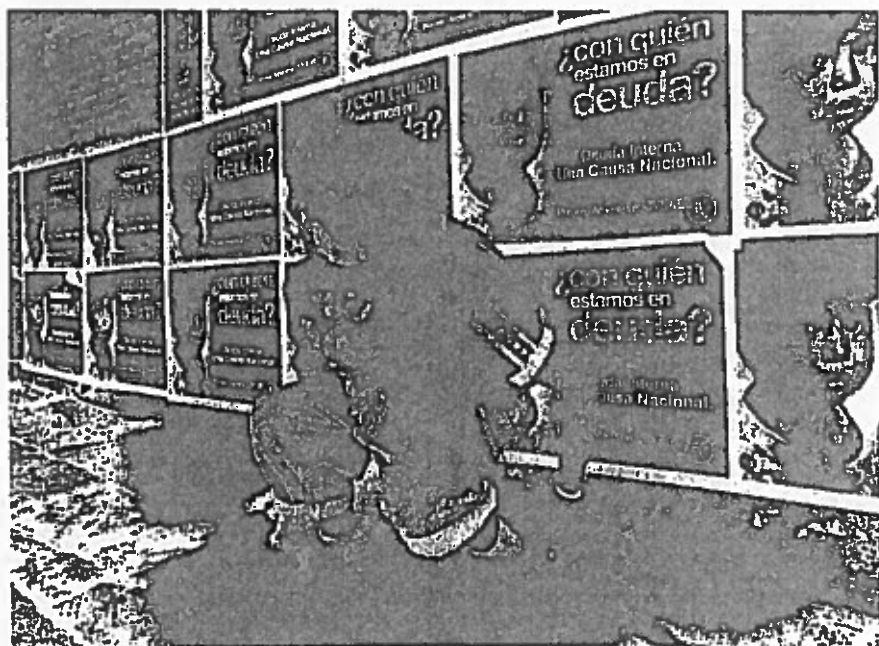
ARGENTINA

### CHEAP STEAKS, HIGH STAKES

IT'S SUMMER IN BUENOS AIRES, AND revelers are spilling onto city streets. Hotels in seaside Mar del Plata bulge with businessmen, many of whom made big money on distressed-asset buys last year, taking their first summer break since a near meltdown in 2002. "Crisis? What crisis?" asks British expat Rob Elding, lured to the city by its \$5 steaks and rock-bottom prices.

Indeed, Argentina looks to be rebounding in style from a cataclysm that toppled several Presidents and left millions jobless and destitute. Riots sparked by blocked bank accounts and decimated savings after a \$132 billion debt default have given way to cautious optimism.

Against long odds, Néstor Kirchner, who became President eight months ago, has managed to stabilize the peso, bring down inflation, and buy some breathing room from the IMF. Unemployment is down, and savings are creeping back into banks. Most impressive is the country's 8.4% economic growth rate last year, fueled by booming agricultural exports.



GDP was up 8.4% last year, but for this street beggar in Buenos Aires, everything is down.

But everything is not as rosy as it appears. Kirchner inherited a host of problems that other administrations pushed off for decades—and that he too is either unwilling or unable to tackle. He has yet to present an economic roadmap or offer hope to the half of the population living below the poverty line. Without hard work on issues relating to jobs, debt, and banking, another bust or outburst is likely this decade.

"Marginalized areas are growing," warns a doctor at a children's clinic in the basement of an abandoned high-rise in Buenos Aires' Ciudad Oculta slums, as the sounds of teenagers breaking off bricks for resale echo through the building. Shoeless children play in the barrio's kindergarten. At a shantytown outside the city, soup kitchen administrator Andres Escobar reckons that the kitchen serves 500 meals a day, up from 340 two months ago. "Things really aren't any better," he says. "There's no work."

Unemployment, though down from its peak of 24%, still tops 16%, and recent gains have little sticking power, since most new work is short term or informal. That's crimping spending by Argentina's middle class, once Latin America's largest. "No one's buying homes on credit, since they may not have a job tomorrow," says Hernan Sarzabal, a struggling architect.

It's not surprising that lines outside foreign embassies are still long. Take Camilo Kejner. The Argentine marketing consul-

tant for New Line Cinema recently returned from a two-month *Lord of the Rings III* tour but is eyeing job opportunities in Mexico City and Atlanta. His dollar contract ended in December. Why chase a two-thirds salary cut?

Little progress has been made luring back investors and entrepreneurs who could seed future job growth. And not much is likely to happen until Argentina figures out how to compensate multinationals and bondholders burned by the economic implosion, fix its broken banking system, establish rule of law to protect private assets, and shift the culture of cynicism and denial to one of accountability.

So far Kirchner has succeeded mainly in offending investors. In January he stripped French defense firm Thales of its radio-spectrum management contract, saying it had failed to invest, and he chastised a Suez subsidiary for the same regarding the waterworks it manages. He has also been unwavering on an offer of 25 cents on the dollar to holders of \$88 billion in defaulted bonds, many of whom are launching lawsuits. "Investors are fed up with Argentine arrogance," says John Price, president of market intelligence firm InfoAmericas in Miami, who cites near-zero interest in Argentina from blue-chip clients.

Kirchner is squeezed between sustain-

ing long-term growth. But while bank- and debt-restructuring talks languish, many multinationals are walking away. Net foreign direct investment was negative in 2003. France's Carrefour, for example, said store expansions are contingent on judicial reform. Oil major Total has filed a suit at the World Bank over losses linked to capped utility rates. Money managers are also disillusioned. Though inflows surged in 2003, holdings are 20% of their 2000 highs. "Risks outweigh rewards," says Hong Kong money manager Marc Faber.

For the time being, Kirchner can indulge Argentines with anti-IMF talk and \$50-a-month welfare handouts, financed largely by taxes on agricultural exports. But the recovery could stall without fresh capital or credit. Supermarket sales are sluggish, and industrial production slipped in December from the previous month. Builders note three-month waits for windows.

Kirchner is tinkering with the banking system through small-business loan schemes and a mortgage debt fund to stem home repossession. But borrowers are skittish about credit. "This is catch-up growth," says Alberto Bernal, an economist at IdeaGlobal, a New York City think tank. "Starting the engine is easy; keeping it running is difficult. You kill your banks, you kill the economy."

Today's agricultural export engine is also a wild card. Values in 2003 surged on a low peso and booming Chinese demand for soybeans. But high taxes eroded profits, and future currency, commodity-price, or interest-rate shifts could reverse flows.

"Without an open economy, stable rules, competitive exports, and healthy public finances, Argentina will be at the mercy of the next international adverse event," cautions Templeton fund manager Mark Mobius.

Argentina's First World aspirations are rooted in rich intellectual and natural resources, which drove its economy to rival that of the U.S. 100 years ago. The country briefly tasted glory again during the go-go '90s and still edges out other Latin American nations on education, bandwidth, and aesthetics. But Argentina's problems cry out for long-term solutions, not today's short-term fixes. "If glaring wealth gaps are not addressed now," warns Lloyd Nimetz, who heads nonprofit HelpArgentina in Buenos Aires, "worse social protests could erupt at the next downturn." — Carolyn Whelan