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Argentina. A Downward Spiral

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A famous quote from the infamous Eva Perón states: “One cannot accomplish anything without fanaticism.” Lamentably, Evita’s reincarnation who currently occupies the Casa Rosada is increasingly taking those words to heart.

For both Argentine firms and foreign companies, Argentina has become one of the least attractive investment destinations on the globe. Moreover, the business environment is worsening: distortions in macroeconomic policies, a deterioration in the legal and regulatory framework due to government intervention, and policies that undermine trade and investment as well as contract and property rights, continue unabated. Cristina Fernández de Kirchner has truly become private enterprise’s worst nightmare. Nationalizations, most notably the renationalization of Repsol-owned YPF oil company last year, followed by others, including the June 5 announcement that the Argentine government has revoked the concessions of two freight railways, a passenger train line and an amusement park, are harbingers of continued Peronista kleptocratic maneuvers. The renationalization of two rail concessions held by the Brazilian company ALL (América Latina Logística) adds fuel to the fire undermining Mercosur, a trade arrangement which the Federation of Industry of the State of São Paulo (FIESP) vilifies as a “straight jacket” for free enterprise and cross-border trade.

Most serious are the government’s expansionary fiscal and monetary policies which have exerted upward pressure on inflation and wages and eroded currency and labor-market competitiveness. As a result the trade surplus has shrunk; and when combined with Argentina being blocked from international capital markets plus continuing capital flight, a currency devaluation could be on the horizon, despite the government’s controls on foreign exchange, trade, and capital. And the government continues to intervene. At the end of last month, Argentina’s consumer defense agency released a list of 500 goods whose prices are now frozen as President Cristina Fernandez de Kirchner struggles to stem the region’s second-fastest inflation. Under an accord between the government and supermarkets, including Carrefour SA, Wal-Mart Stores Inc., and Chile’s Cencosud,, which runs the Jumbo, Disco and Plaza Vea chains, prices have been fixed for goods ranging from cooking oil to sodas, cereals, wines, hair removal wax, and beer, according to a statement posted on the agency’s website.

Even in the realm of agriculture and natural resources—Argentina’s economic forte—the outlook is troubling. While the country is the No. 3 exporter of both soybeans and corn (and the No. 1 supplier of soy oil and soy meal) and possesses the fourth largest deposits of recoverable shale oil, energy import costs have soared, revenue from soybean and grain exports has declined, and strikes among longshoremen and logistical

problems have caused serious harm to the economy.

How then is Argentina to compete in the 21st century global economy? The answer is: with great difficulty. The Economist Intelligence Unit's global business rankings -- which measure the quality or attractiveness of the investment environment in 82 of the world's largest economies -- ranks Argentina 70th out of 82 countries and 9th out of 12 in the region in the forecast period 2013-17. The nation fares worst in tax policy, foreign trade and exchange controls, and the macroeconomic environment—with all indicators heading downward. Even in areas where Argentina scores relatively well, such as the labor market and infrastructure, its ranking will most likely decline due to the impact of underinvestment in education and infrastructure, leading to bottlenecks and skills shortages. In another set of rankings—from the World Bank—Argentine scores even worse when it comes to the environment for doing business: 124 out of 185 countries (down 8 points from 2012). It ranks 154 in starting a business, 117 in protecting investors, 149 for paying taxes, 103 in trading across borders and 135 in registering property

With consumer and business confidence declining and the GDP growth forecast likely to decline from 2% to 1.6%, the outlook for Argentina for the remainder of this year is anything but promising. The pending legislative elections, due in October, will only add to the risks of a deepening deterioration in the fiscal accounts.

The late Astor Piazzolla, one of Argentina's greatest tango composers and bandoneon players, produced a famously somber and melancholy composition entitled "Oblivion." Sadly, the title describes where Argentina is presently heading. Only the Argentine people, exercising their voting rights, can act to avoid the impending calamity.

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