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Perspectives

Argentina: Back to the Future

Argentina's expropriation of YPF defies all logic.

BY JERRY HAAR

The well-received 1985 movie "Back to the Future" was followed by two sequels. The fourth sequel is currently playing in Argentina—not on the big screen but in the political economy of that nation. This nation of 40 million has once more slid back into an imbecilic morass of demagoguery, authoritarianism, mindless statism and self-destructiveness. Don't cry for Argentina; this toxic elixir was 100 percent brewed and imbibed by the political class in that nation.

In a move that defies all logic, President Cristina Fernandez has renationalized YPF, the nation's largest oil company, booting out Repsol as majority shareholder. The biggest natural resources renationalization since the Russian government took control of Yukos oil a decade ago, President Fernandez's claim that the renationalization was done due to YPF's failure to invest in the oil sector simply does not wash. YPF has had every right to repatriate profits and dividends to its Spanish majority shareholders. It is the Argentine government's failed energy policy and setting of domestic prices far below international levels that are the true culprits here. Cristina's vehement assertion that "I am a head of state and not a hoodlum" is akin to Richard Nixon's assertion: "I'm not a crook."

The implications for firms are obvious: Argentina has become an exceedingly precarious, unstable, and unpredictable environment for business where governmental intervention can defy the law and take place any time and for whatever reason. For the international investment community, Cristina's actions further solidify Argentina's pariah status.

The Argentine president's action is merely another, yet higher profile, manifestation of a degenerate political culture characterized by cronyism, statism, corruption and antipathy towards free market capitalism. The nefarious legacy of Juan and Eva Peron, adopted by Cristina and her late husband Nestor, is playing out with greater drama on the Argentine political stage.

Let us not forget that little more than a decade ago the nation defaulted on its debt (to which it still owes the Paris Club \$9 billion), devaluated its currency, and abrogated contracts. Under Cristina, the country raised taxes on exports; robbed the central bank of its independence; privatized pension funds, airlines and a water company; and instituted a host of new protectionist measures. In fact, Argentina ranks first in Latin America with 191 protectionist measures—more than double that of Brazil, a country that is not exactly a model nation for trade liberalization.

As for the business operating environment for both foreign and domestic firms, under Cristina's reign it has deteriorated, as well. In the World Bank's

Doing Business rankings of 183 countries, Argentina places #147 in starting a business, #144 in paying taxes, and #113 in the ease of doing business.

There are many theories as to why Cristina nationalized YFP, other than her vehement belief that YPF was "raping" the country of its rightful income and not investing enough in the energy sector. Some speculate she was angry at having been snubbed at the recent Summit of the Americas in Cartagena, Colombia (where members of the U.S. Secret Service were certainly not snubbed). Others surmise it was done to solidify her position with the Argentine congress. Whatever the case, having won reelection easily, and with Chavez and Castro both at death's doorstep, Cristina's Evita complex--domineering, narcissistic, authoritarian--is soaring to new heights. Populism runs wide and deep in the Justicialista (Peronist) Party; so no one should be surprised by her moves---especially after other anti-foreign investment actions and protectionist trade measures aimed at her Mercosur neighbors and other countries. As long as the price of commodities (particularly wheat and soy) are high and without any effective challenge in congress or within her party to her power, Cristina can and will do whatever she pleases, with her faithful economic policy advisor, Axel Kicillof, a die-hard Marxist, at her side.

Mexican President Felipe Calderón recently declared: "No one in their right mind is going to invest in a country that expropriates investments." Obviously, President Calderón is oblivious to the fact that there are more than a few investors whose naïveté, irrational exuberance, or historical short-term memory loss will not be dissuaded from investing in Argentina. As for many others, they will look to Colombia, Panama, Peru, Brazil, and Mexico for far less risky opportunities.

For it takes two to tango, and Cristina Fernandez is in no mood to dance.

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