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Argentina's economy: back from a meltdown

Argentina's economy blossoms, but the public isn't celebrating yet

By Bill Cormier

Associated Press

BUENOS AIRES - Five years after Argentina's economy melted down, triggering food riots, supermarket lootings, devaluation and debt default, María Elena López is still scavenging in the streets for recyclable paper.

But today there's less competition, and it takes less of her day to amass \$5 worth of junk, pushing a creaky wooden cart through an upscale Buenos Aires suburb in search of paper, cardboard and anything else she can sell.

López, 34, is at the bottom end of a remarkable economic recovery that is generating jobs, boosting exports and reviving businesses. But it still has a long way to go. "Five years later, it's definitely better," says López, wearing a baseball cap and sweating. "But it's not great."

Today the ranks of the scavengers, or *cartoneros*, have thinned as South America's second-largest economy rebounds at a blistering pace, growing more than 8 percent year after year.

López now has time to earn extra money baby-sitting, while two brothers idled by the crisis have gone back to low-paying jobs, one in a car wash, the other in a tire repair shop.

It's now rare to see desperate families Dumpster-diving for rotting vegetables, and those classified as poor have gone from more than 50 percent of the population of 37 million to about a third.

Argentina has posted 47 months of uninterrupted growth and has already renegotiated repayment of \$100 billion of public debt after the largest default the world has known.

EXPORTS SAVE NATION

The biggest South American farm nation after Brazil, Argentina exported its way out of the crisis, registering a record \$46.5 billion in sales led by soybeans, corn and wheat from the fertile Pampas in 2006.

The Argentine peso was pegged 1-to-1 with the U.S. dollar for more than a decade until the recession and mounting debts sparked a run on banks by depositors in 2001, setting up the currency's freefall.

Today, the government pegs the peso at three to the dollar to boost tourism, exports and construction. The cheap exchange rate also keeps prices lower in dollar terms, and some fixed costs like utility rates remain frozen by the government at 2002 prices.

President Néstor Kirchner, elected in March 2003 after four others were toppled by the crisis in the space of just three weeks, also strong-armed creditors worldwide, forcing them to accept repayment of less than 30 cents on the dollar. And he made early repayment of some \$9 billion owed the International Monetary Fund, using tax dollars reaped from the export windfall.

Kirchner is a friend of Venezuelan President Hugo Chávez, and the Argentine's election was seen as another win for a resurgent Latin American left. He is heavily favored to win re-election in October if he decides to run.

Yet many Argentines remain skeptical that the good times will last. One reason for their lack of faith: Credit programs that shriveled in the crisis haven't bounced back, squeezing first-time home buyers and small businesses. Interest on house mortgages has soared above 12 percent.

Critics complain about the unorthodox price controls Kirchner imposed to squelch inflation. Last year he banned most beef exports for six months, hoping to keep enough red meat at home to ensure high supplies and low prices for this key component of the consumer price index. And now he has slapped new taxes on soybean exports to finance subsidies of bread and other foodstuffs on the index.

Such moves are manageable when the economic conditions at home and abroad are working in Kirchner's favor, says political analyst Rosendo Fraga. "It will be easier to see how things play out when the winds of the world economy blow against him."

PALTRY PAY

Perhaps the biggest complaint is wages, which remain sharply devalued. While the jobless rate is down by half to about 10 percent today, many workers say cost-of-living adjustments are long overdue.

Argentina's largest labor confederation wants a 30 percent wage increase for millions of members. The talks start this month, but protests have already begun: Some 200

unionized supermarket workers beat drums and shot firecrackers off outside the Labor Ministry this month.

Still, Buenos Aires is on the mend, as the skyline shows.

A former wharf district of rundown warehouses, which began booming before the crisis, is filling up with luxury apartments and office suites. Despite the credit difficulties, investors are raising new skyscrapers. And several industries are booming with new opportunities.

Horacio Moschetto, who lobbies for shoe manufacturers, recalls how the overvalued peso made it hard to compete with 25 million pairs of Brazilian shoes flooding the Argentine market.

Argentine shoes are back, selling around Latin America and Europe, and the industry's workforce has grown from 14,000 in 2001 to 52,000 today, Moschetto said. Now even Brazilian companies want to manufacture in Argentina because costs are lower.

"In 2001 we manufactured 33 million pairs of shoes, and last year we made 88 million pairs. This kind of recovery, I know, is happening in many industries," Moschetto said.

In December 2001, just before the meltdown, protesting Argentines set ablaze a mock "Christmas tree" of cut-price Brazilian shoes, and Moschetto keeps it in mind: "That's something I still remember well."