As Easy as ABC.

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Argentina, Brazil and Chile are taking distinctly different routes to prosperity

It felt like the end of the world at the edge of the earth. It was 2002, and Argentina was in economic free fall. The peso lost 75% of its value against th
$100 billion of debt. Bank deposits were frozen to halt panicked runs, and an enraged middle class took to the streets. The country went through five
the crisis, one of the worst in South America's history, would spread next door to giant Brazil--where the élite predicted financial ruin if Luiz Inácio Lul
elected President that year--and even to stable Chile, where executives groused over glasses of Chilean Cabernet Sauvignon that the U.S. Congress
Washington.

Five years later, Argentina's rapid recovery still has analysts doing double takes. Since President Néstor Kirchner was elected in 2003, annual growth
Argentina has parlayed a cheaper but stable peso into record export earnings. Argentina, crows Central Bank president Martín Redrado, is enjoying i
years. In Brazil, Lula's election (and 2006 re-election) did not render the region's largest economy a leftist basket case. Instead, inflation has fallen fro
has climbed 56% against the U.S. dollar, and the São Paulo stock exchange, the Bovespa, is soaring. And since the U.S.-Chile free-trade agreement
U.S.--including all that Cabernet--have risen 167%.

Although Latin America attracts nowhere near the foreign direct investment (FDI) that Asia or even Eastern Europe does, competitiveness is on the ri
Brazil and Chile. Like most other Latin countries, the ABCs were pulled on the economic torture rack during the 20th century between socially neglige
they lead a potent common market, Mercosur. (Chile is an associate member.) And while each has a leftist President--Chile's Michelle Bachelet is als
pragmatic socialism, says Jerry Haar, an international-business
professor at Florida International University in Miami and a co-author of Can Latin America Compete? They're managing the precarious balancing ac
Haar, drawing both to a more globally competitive middle.

Argentina has danced the most difficult tango. Kirchner--whose wife Senator Cristina Fernández de Kirchner was elected to succeed him as Presider
country of 40 million governable. He renationalized some utilities and set export limits on essential goods like meat to moderate prices. But rather tha
Argentine products like soybeans have hit all-time highs in recent years--Argentina replenished its foreign reserves (a record $44 billion today), parec
and overindebtedness caused the crisis, says Redrado, noting that much of that excess occurred, ironically, during the more market-oriented governi
no longer a policy of the right or the left. It is common sense.

Argentina is just as sensibly working to cut its dependence on commodities-- the bane of almost every Latin economy. Argentina, which has one of th
biotechnology-promotion law to channel incentives to biotech firms. One, Bio Sidus, with $40 million in annual sales, is pioneering an affordable huma
modified calves cloned 60 miles (97 km) from Buenos Aires. Our traditional cattle-ranching experience gives us a big advantage, says Bio Sidus pres
obtaining financing at international rates.

There's the Argentine rub. Short-term, the country is booming; long-term, it's considered high risk. There is still a sensation of uncertainty, says forme
that we don't have clear long-term rules. FDI fell to just above 2% of Argentina's $212 billion gross domestic product in 2006, thanks to lingering doub
Fernández will have to confront.

By comparison, Brazil's competitive outlook is often described as a day in the Ipanema sun. Lula--who has adhered so faithfully to orthodox fiscal pol
boasted that Brazil's $1 trillion economy, the world's 10th largest, is going through an auspicious moment.

Feats like a $100 billion foreign-reserve cache have helped lower the country's risk premium, as measured by JPMorgan Bank, to 175, vs. 1445 whe
world-class regional jetmaker Embraer, now represents a quarter of GDP, and Brazilians feel more consumer confidence than perhaps at any other t
vehicles through long-term-financing programs, gushes Jackson Schneider, head of the National Association of Automotive Vehicle Manufacturers, w
past three years. They can more easily afford the installments.

Though Brazil expects 5% economic growth this year, many are asking whether it's because of Lula or despite his failure to tackle an array of probler
gaping inequality and baroque bureaucracy--it takes 152 days to start a business there, according to a KPMG consulting study, compared with 32 in
overvalued real, high taxation, weak infrastructure and especially pension reform. Incredibly, Brazilian pensioners receive more money as a share of
sucking investment from badly neglected areas like education. Says Renato Fragelli, director of the Graduate School of Economics at the Fundação
fix a roof is when the sun shines--but when the sun shines, Brazilians go to the beach.

Chile, meanwhile, seems to be doing everything right. Though it is small (pop. 16 million), its GDP is $145 billion, one of Latin America's highest per c
with little inflation (though recent labor and student protests indicate Chileans want a larger slice of that wealth). Its size precludes large-scale manufa
for its myriad commodities, like copper and timber. Compañía Sud Americana de Vapores, Latin America's largest maritime-transport concern, reflec
outpost into a bridge to the Pacific Basin.

Chile's FDI measures more than 4% of GDP, also tops in South America, largely because Chile keeps corruption, bureaucracy and undue tax burder
the most transparent in Latin America. Investors realize our institutions function, says Osvaldo Rosales, international-trade director at the U.N.'s Ecor
Caribbean.

That includes the institution that means the most in the long run. Chile directs more of its public expenditure (almost a fifth) to education and gets mo
than any other country in the region save Cuba. Investing in people--a concept too long ignored in Latin America--is what makes economies competit