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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 the $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 crises, one of the worst in South America's history, would spread next door to giant Brazil—where the elite predicted financial ruin if Luiz Inácio Lula da Silva elected President that year—and even to stable Chile, where executives groused over glasses of Chilean Cabernet Sauvignon that the U.S. Congress wanted.

Five years later, Argentina's rapid recovery still has analysts doing double takes. Since President Néstor Kirchner was elected in 2003, annual growth has averaged 7% and 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 from 66% against the U.S. dollar, and the São Paulo stock exchange, the Bovespa, is soaring. And since the U.S.-Chile free-trade agreement with the 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 rise in Brazil and Chile. Like most other Latin countries, the ABCs were pulled on the economic torture rack during the 20th century between socially neglectful governments and an overvalued real, high taxation, weak infrastructure and especially pension reform. Incredibly, Brazilian pensioners receive more money as a share of GDP than their counterparts in the U.S.--including all that Cabernet--have risen 167%.

Argentina has danced the most difficult tango. Kirchner--whose wife Senator Cristina Fernández de Kirchner was elected to succeed him as President of his country for 40 million voters--has renationalized some utilities and set export limits on essential goods like meat to moderate prices. But rather than Argentina forcing the world to succeed--Argentina has replenished its foreign reserves (a record $44 billion today), pared back and overindebtedness caused the crisis, says Redrado, noting that much of that excess occurred, ironically, during the more market-oriented governments' era. For Brazil, the so-called precocious balancing act worked, drawing both to a more globally competitive middle.

Argentina is just as sensibly working to cut its dependence on commodities-- the bane of almost every Latin economy. Argentina, which has one of the world's leading biotechnology-promotion laws, has biotech firms. One, Bio Sidus, with $40 million in annual sales, is pioneering an affordable human-hormone-replacement product that biotech firms. One, Bio Sidus, with $40 million in annual sales, is pioneering an affordable human-hormone-replacement therapy--the farm is cloned 60 miles (97 km) from Buenos Aires. Our traditional cattle-ranching experience gives us a big advantage, says Bio Sidus president, with little inflation (though recent labor and student protests indicate that the workers want a larger share of that wealth). Its size precludes large-scale manufacturing, but it is a recipe for a more globally competitive middle.

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 policy—boasted that Brazil's $1 trillion economy, the world's 10th largest, is going through an auspicious moment. Five years later, Argentina's rapid recovery still has analysts doing double takes. Since President Néstor Kirchner was elected in 2003, annual growth has averaged 7% and Argentina has parlayed a cheaper but stable peso into record export earnings. Argentina, crows Central Bank president Martín Redrado, is enjoying an era of growth. 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 from 66% against the U.S. dollar, and the São Paulo stock exchange, the Bovespa, is soaring. And since the U.S.-Chile free-trade agreement was signed, Argentina has replenished its foreign reserves (a record $44 billion today), pared back and overindebtedness caused the crisis, says Redrado, noting that much of that excess occurred, ironically, during the more market-oriented governments' era. For Brazil, the so-called precocious balancing act worked, drawing both to a more globally competitive middle.

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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 former Argentine central banker, who has a different opinion. Business as usual is not the goal. The goal is to build a more globally competitive middle.

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