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Argentina plays chicken with foreign investors

Feb. 25 is the deadline for bondholders to accept just 30 cents on the dollar.

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BUENOS AIRES - In December 2001, shortly after Argentina declared the largest debt default in history, Daniel Occhipinti's furniture company halted production and let several employees go.

"In 2002, it all ended. Work just died," says Mr. Occhipinti.

What a difference three years makes. Despite nearly universal predictions to the contrary, Argentina's economy has survived - and thrived. It grew 8 percent in 2004 and is expected to grow around 5 percent this year. Occhipinti has doubled its sales and workforce and now employs 75 people at its warehouse outside Buenos Aires.

"Business is booming these days," he says.

Indeed, unemployment is at 13 percent, down from a record 22 percent in 2002. And thanks to a weakened peso, domestic consumption is on the rise, exports are bustling, and tourists are flocking here from all over the world.

Now just one obstacle remains to complete Argentina's economic comeback: paying - or reneging on - the country's \$100 billion-plus debt. Argentina is currently involved in contentious negotiations with disgruntled bondholders from Miami to Milan, who have scoffed at the government's offer of 30 cents on the dollar. The 70-cent "haircut" that Argentina is asking creditors to take is unprecedented in modern times. The move, say experts, could rewrite the way debt-ridden countries do business with international lenders, giving them new muscle. But it could also backfire, they say, with Argentina becoming a pariah for future foreign investment.

"What the Argentines are playing with now is the fundamental economy," says Hans Humes of the Global Committee of Argentina Bondholders in New York, whose 500,000 worldwide members hold some \$40 billion in Argentine bond debt.

Mr. Humes is convinced that Argentina can afford to pay twice what it has offered and is anxiously awaiting the country's Feb. 25 deadline to see if the deal will be sweetened. So far, Buenos Aires has convinced only about one-third of its bondholders to sign on and insists it cannot and will not offer more money. Other bondholders may take the country to court.

"They can take it or leave it. We are not going to change. This is Argentina's final offer," President Néstor Kirchner said last Friday. To drive home this point further, the Argentine Congress is expected to pass a law next week that will prevent any further debt-exchange offers, a move that some observers say goes against the promise Argentina made to the International Monetary Fund to negotiate in "good faith."

"The fact that the Argentines have been so abrasive and so antagonistic toward the creditors completely justifies people going to a court and getting the courts to validate their claims before the Argentines try to strip their rights away," says Humes.

President Kirchner's often abrasive attitude may have earned him an array of critics overseas, but it has clearly strengthened his mandate at home and throughout much of Latin America, where several like-minded leftist leaders share his ideals.

"We are on the same team," said Venezuelan President Hugo Chávez last week during a visit to Buenos Aires, where he and Kirchner signed a series of economic and social accords.

Argentina could win this current staring contest with creditors, but observers say that doesn't mean the global economic community will be anxious to embrace it again. "It's not as if Argentina will come out of this unharmed or unscathed," says Federico Thomsen, an independent economist here. "You have paid back 30 cents on the dollar. It has been accepted because you didn't offer any more. That doesn't mean I have to love you."