

# LatAm

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# Argentina 2030

*An investment guide to the country's incredible energy, agriculture, mining and tech opportunities*



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## Investment opportunities in post-crisis Argentina

*The economy is a mess. Yet Argentina’s incredible natural resources – from people to lithium – will power a recovery in the medium term...*

Argentina is being stalked by the four horsemen of the economic apocalypse: inflation, drought, war and political uncertainty. The result is economic chaos. As the incumbent, lame duck government, limps towards elections it is implementing increasingly desperate measures to keep the economy afloat. There are more than ten different exchange rates for different sectors, though none of them match the free market peso-dollar rate, which is in freefall.

The main problem is fiscal, says Ramiro Blazquez, Head of Research and Strategy at BancTrust, a London-based investment bank with a strong focus on Latin American debt. “Argentina’s fiscal deficit, if you combine the accounts of the central bank and the treasury, come to 9% of GDP. For a country with a history of default – and therefore a low tolerance for debt – it is a huge deficit that nobody is willing to finance. So, the only way the government can fund the deficit is by capital controls that trap liquidity in Argentina. That is why you have an unrealistic official exchange rate that overvalues the peso. Companies that want dollars to import goods have to use the official exchange rate. What’s more the central bank, which has a shortage of dollars, will often delay giving the dollars to the companies.

“The problem in Argentina isn’t the overall level of debt, indeed public sector indebtedness after excluding intra-public sector debt is just 50% of GDP, but the fiscal deficit. The central bank also prints money to fund the deficit which feeds inflation. Exporters complain about the overvalued official exchange rate – and I’d say that it is 20% to 30% overvalued – but that isn’t the main problem. The large fiscal slip-page manifests itself through inflation and the depreciation of the exchange rate. The underlying cause is the fiscal deficit. You could have a much strong-

er real exchange rate if you had sound fiscal accounts.”

Not everyone agrees. Daniel Marx, an economist who has held government positions in the past and now heads up his own boutique investment bank, Quantum Finanzas, feels that too much emphasis is put on state spending. “If Argentina had grown at the world average over the last ten years, then tax could be lower than it is today and Argentina would still have a surplus, even with current levels of expenditures. When people talk about the fiscal defi-



**Argentina’s fiscal deficit, if you combine the accounts of the central bank and the treasury, come to 9% of GDP. For a country with a history of default – and therefore a low tolerance for debt – it is a huge deficit that nobody is willing to finance**

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cit they focus on tax and expenditure but growth is also a massive component.

“Really to fix the problem we can’t just look to short-term solutions – for example next year we won’t have a drought and agricultural exports will be higher. Instead, we need to make structural reforms to the economy. I think in order to stabilise the economy you need to look at the fiscal balance but you also have to create a positive growth outlook.”

Another prominent voice in the debate is Guillermo Pérez, CEO of Grupo GNP, a well-known local tax and business consultancy. “The solution is quite simple – we need to reduce evasion, which is currently at 40%, down to European levels of around 20%. Then we need to make state spending more focused and effective. Those two measures would eliminate the problem with the fiscal deficit.”

## Electoral change

The experts might debate about the exact remedy but they all agree that deep change is needed. The coming elections in October create political uncertainty but they are also a great way for Argentina to find a president that can reform the economy.

Investors never like betting on the outcome of political polls. That’s especially true this time, with three political forces roughly neck and neck. The ruling party *Frente por Todos* is in disarray with both its controversial but iconic leader, Cristina Fernández de Kirchner and its sitting president, Alberto Fernández, already ruled out from standing. However, the left-wing populist movement can count on around 30% of the population that will support it regardless. The *Juntos por el Cambio* coalition, that brought Mauricio Mac-

ri to power from 2015-2019, has two standout potential candidates: Patricia Bullrich and Horacio Rodrigo de Larreta. It would implement the conventional economic orthodoxy that many analysts feel Argentina needs, but some Argentines rightly question why it didn’t do a better job when it was last in power. Finally, you have the surprise candidate - libertarian upstart Rodrigo Milei, who has come from nowhere to become a serious contender. His radical proposals, such as abolishing the central bank, worry the establishment yet his unorthodox approach strikes a chord in a country that appears to have tried every economic solution without success.

At LatAm INVESTOR we don’t want to try and pick a winner, instead we look for scenarios that will happen irrespective of who wins. “In the last few months, we have seen local investors ask about investment opportunities”, says Marx. “This isn’t just an electoral trade - Argentina is on the verge of running out of money and that will force change regardless of who comes to power. The elections will improve economic management. I don’t say this because I am favouring one team over another, but the new government will have more time and a voter mandate, which will allow them to improve things.”

A typical error that many international investors make when looking at Latin America, is assuming that centre-right governments are automatically good for the economy. The current left-wing government has made many economic mistakes – and its unpopular with most of the leading business figures that we interviewed – yet it would be unfair to blame it for all of Argentina’s economic travails.

Economic chaos clearly predates this

government, explains Pérez. “Over the last 120 years in Argentina, we have had 27 economic crises – roughly one every four years. Of the last 40 years, 18 of them have been recessionary in Argentina. That is one of the worst records in the world, with only Libya faring more badly. Since 2011 we have not grown our GDP per capita, so we have been stagnating.” The problem is not a particular government but the economic model, continues Pérez.

## The first 100 days

Whoever comes to power won’t be celebrating for long. They will have just taken on the most difficult job in world politics: How to reform Argentina’s economy while building consensus in its notoriously fractious society.

“Since 1950 the economic model has focused more on distribution than production and that has led to poverty”, says Pérez. “When I began working, three in every 100 Argentines lived in poverty. Now that number is 40. We have a massive state that causes a fiscal deficit that can only be financed through printing money, debt or more taxes. The trouble is that we have reached the limit of all three measures. Our inflation is over 100%, so printing more will cause hyperinflation. We can’t borrow more money as we have defaulted nine times and nobody wants to lend to us. And as for taxes, the World Bank calculates that Argentina already has the highest tax burden in the world. So, a change will come regardless of who wins the elections.”

“Macri was not aggressive enough”, says Blazquez. “Now we have the same debate about shock treatment versus gradualism. It sounds strange, but to be aggressive you must be a gradualist. You can’t change so many distortions overnight but you can convince market players that you have a feasible plan.



# ARGENTINA 2030 REPORT

With Macri it was wishful thinking – investors thought that a market-friendly government, coupled with Argentina’s potential, would work out well. Macri ran large fiscal and current account deficits in his first two years but then in 2018 financing dried up because of US interest rate expectations and the trade war with China. That stopped capital inflows, a problem that was exacerbated by the fact that Argentina was relying on hot money, which left very quickly when the country’s prospects worsened.

“The next administration will need a balanced budget”, continues Blazquez. “The fiscal deficit will not change 180 degrees overnight but if the next president demonstrates resolve early and shows the market that there is a credible plan to fix the fiscal situation then I think Argentina can regain market access, which will help it avert default.”

Fabian Kon, CEO of Banco Galicia, Argentina’s largest bank, agrees. “People say that if we implement economic orthodoxy, it will cause a shock. But I think the alternative, which we are living at the moment, is worse. We have 100% inflation, pensioners earning \$125 per month considering the free exchange rate, an economy in recession and no employment growth. Yes, the cure will be difficult but when people start to see economic results then they will support it.”

“To really fix our economic distortions we would need to take a decade of hardship and I don’t think the Argentine people are prepared to do that”, says Alan Arntsen, founding partner of Pagbam, a full-service legal firm with offices in Buenos Aires and New York. “That’s why we are a country of extreme cycles because no politician can build consensus for a sustained period of painful but necessary measures.



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**Fabian Kon,  
CEO of Banco Galicia**



“The exception was in 1989”, continues Arntsen, “when we suffered brutal hyperinflation and things got so bad that politicians could be persuaded to vote for tough economic measures. That led to a wave of privatisations, a reduction of the state and economic growth and intense deregulation but eventually ended with the 2001 crisis.”

Many interviewees feel that Argentina is on the brink of another crisis. “I think it will get uglier before it gets better”, says Sebastian Haloua, from Fenix Partners, a Buenos Aires-based independent corporate advisory firm. “The macroeconomic imbalances are getting larger. The current government is desperate to make it until elections but I think October is a bridge too far. The peso is going to collapse and inflation will increase. I remember what happened in 1989, when the peso went from 8 to the dollar to 600 to the dollar in one week. Once you lose control of inflation the situation gets worse very quickly. I don’t think things will get that bad this time though.”

Arntsen also believes any crisis now will

be less severe. “The situation is tough but you can’t compare it to the last crisis in 2001. On a personal finance level, Argentines are better prepared this time, in terms of their exposure to the peso.” Yet David Cooper, CEO of Cooper Brothers, an insurance loss adjuster that has been in Argentina for more than a century, is more pessimistic. “Given that lots of our economic numbers are already very bad, I would hate to think where a crisis might take us.”

## Investment opportunities

This all makes pretty depressing reading, so congratulations if you made it this far. But your perseverance will be rewarded because, despite the current chaos, Argentina has some world-class investment opportunities that should drive strong growth in the medium term.

Elsewhere in this report we take an in-depth look at Argentina’s incredible potential in energy, mining, agriculture and technology. But it’s also worth highlighting the growth opportunities that will come from normalising the economy.



“If Argentina had a conventional economy, then banks could grow exponentially”, says Kon. “In Argentina credit is just 9% of the country’s GDP, compared to 90% in Chile and around 60% in places like Colombia, Peru and Brazil. In Argentina the banks are just transactional as we don’t really provide long term credit. That explains why the Argentine economy can’t grow – its entrepreneurs aren’t able to borrow to fund expansion. It also hits households as there are practically no mortgages in Argentina. Even in the boom of the Macri years we only issued 7,000 mortgages, despite having a base of more than 2 million customers. The high inflation makes issuing credit impossible – imagine taking on a loan with 100% interest.” Kon’s point is that Argentina doesn’t have to do anything revolutionary – just have a relatively stable, normal economy. Regardless of who wins the election by 2030 – which is the focus of this report – Argentina’s macroeconomic position should be far more solid. The drought reduced Argentina’s agricultural exports in 2023 by \$20billion, causing huge liquidity problems for the cash-strapped economy. However, rainfall has returned and agricultural exports will be much higher in 2024. Argentina will also get a boost from new export sectors, says Blazquez.

“We will see a massive improvement in Argentina’s energy exports in the coming years. In 2025 there will be a sharp reversal of the current \$6billion energy import bill to a \$6billion energy export surplus. Argentina has massive oil and gas reserves in Vaca Muerta and is currently building large pipelines to allow it to increase production. Eventually there will be an LNG market, that will allow us to export gas to the world market.”

Blazquez believes that, “if Argentina

can become a more ‘normal’ economy, then you will see an appreciation of the exchange rate, so that non-tradeable sectors such as services and real estate will increase. If that becomes a sustainable trend then you can have good rates of returns for many years. Our tech sector is very competitive already.”

It isn’t easy to invest in an economy that is hurtling towards crisis but the rock bottom valuations may tempt some investors. For example, Kon believes that Argentina’s banking sector is cheap right now. “If the presidential primary in August shows that the politicians are willing to change the direction of the economy then you will see share prices in the banking sector increase”, says Kon. “In the past, with more confidence in the Argentine politics and economy, our share price got to \$73 at Nasdaq, but after the PASO (primary election) results in 2019, it fell more than 50% in one day. Our market cap, which has been as high as \$10billion, is now around \$1.7 billion.”

“Valuations in Argentina are incredibly attractive”, says Pérez. “Assets in the country are probably trading for one third of their true value, while returns in some sectors are high. At the moment the Argentine investors are looking for opportunities. When they start to bring back money from abroad to buy businesses and assets here, that will be a sign that the recovery is happening. International investors will be watching for that because they know that the locals understand the country risk far better. So, the local buying spree will be followed by international investors returning to Argentina.”

Marcelo Slonimsky, a Partner at Bourel Paris-Laplace agrees, noting that “savvy investors who are betting on a change in the economic climate and

are looking for undervalued assets in sectors with strong fundamentals that will benefit if the economy improves and opens to the world.”

Argentina’s return to the global economy is inevitable. As the 21st century progresses the world will increasingly need Argentina’s energy, metals, food and human talent. Meanwhile a new generation of Argentinians has become frustrated with the ‘big state’ economic model that made the country poorer in the 20th century. If properly managed, Argentina’s incredible size and natural resources could boost living standards and expand the country’s much-suffering middle class. It would also create incredible opportunities for brave investors.

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# Argentina's incredibly chaotic economy

*Whoever wins the election will need to normalise the economy – here's a flavour of what awaits them...*

### Insurance industry

“At present, the unfortunate characteristic of the Argentine insurance market is that a shortage of dollars means a moratorium on paying reinsurance premiums”, explains David Cooper, CEO of Cooper Brothers, a family-owned loss-adjuster and Lloyds Agency that has been in the market for more than a century. “Even blue-chip companies can't pay because the Argentine Central Bank doesn't let them

access the dollars. By law, any Argentine property must be insured in Argentina. Of course, the capital capacity isn't here to insure large, complex risks. In those cases, you have a low retention by an Argentine insurer, with most of the risk passed to reinsurers abroad. “At the moment, local and international corporates based in Argentina will be paying their insurance premium to

the local insurance company. However, that insurer won't be able to pass that payment on to the foreign reinsurers. Instead, the insurer will invest the money locally, with the idea being that one day they will be allowed to make the payment to the international reinsurers. The big question is: will the international reinsurers continue to reinsure those contracts under these conditions?”

### Housing market

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really provide long term credit. That explains why the Argentine economy can't grow – its entrepreneurs aren't able to borrow to fund expansion. It also hits households as there are practically no mortgages in Argentina. Even in the boom of the Macri years we only issued 7,000 mortgages, despite having a base of more than 2 million cus-

tomers. The high inflation makes issuing credit impossible – imagine taking on a loan with 100% interest. “You have to realise that young Argentines, even those earning good wages, can't buy a house. They rent until they are 50 years old in the hope that they can inherit their parents' home, so the pent-up demand is huge.”

### Importers

“When you want to import you have to exchange your pesos for dollars at the central bank and they aren't always available”, says Gustavo Carro, CEO of Tacker Oil Tools. “However, those controls don't impact international service companies as they can 'temporarily' import the equipment from abroad. At Tacker we are fortunate that we have operations in Colombia and Mexico, so

we can access dollars from those subsidiaries and bring the equipment into Argentina. “Since our original equipment is from the US, we need to buy the original spare parts. Our solution works because we buy them with our foreign subsidiaries, however, that means that our Mexican and Colombian operations

are subsidising the Argentine business. Our business here in Argentina is doing well but capital controls mean that we can't repatriate the profits. So we have to reinvest the profits locally, as we don't want to keep savings in pesos as the real value will be eroded by inflation. The moment capital controls are lifted it will make our business simpler.”





## Capital controls

“The capital controls, the multiple exchange rates, and rampant inflation are the main challenges for foreign investors”, Marcelo Slonimsky, Partner, Bourel Paris-Laplace. “What incentive is there to make money in Argentina if you can’t repatriate those profits? There are work arounds, for example you can use crypto currencies or bond transactions that give you access to US dollars. But these are extremely complicated transactions with lots of restrictions and sometimes difficult to understand or to be approved by large publicly listed companies.

“Companies end up spending hours of their lawyers and accountants’ time finding creative structures to repatriate profits. Argentine companies are establishing trading companies in Uruguay to keep hard currency there. Others, with their Pesos, are buying local assets denominated in US Dollars, like real estate.”

On the plus side it can create local deals, says Francisco Romano, a partner at Buenos Aires corporate law firm, Pagbam. “Companies that are productive and have a good business

in Argentina find they can’t repatriate their profits, so they need to invest them locally and that generates local deals. Companies with excess cash need to invest pesos in a way that is dollar linked, so that when the capital controls are lifted, they can recover the value of the money. We have seen a lot of real estate development from companies that aren’t property developers but need to do something with their cash. So, we help our clients with that. You also see cash-rich clients looking to acquire profitable Argentine businesses or lending money.



## The incredible 0% bond

“Argentina has a complicated business environment but that also creates opportunities”, says Ricardo Hosel, CEO of Oldeval, the pipeline that carries all of Vaca Muerta’s crude oil.

“For example, we recently issued a three-year, \$50million bond at 0% interest. We raised money in pesos but at the official exchange rate of ARS210 to the dollar. We will repay the bond in three years’ time at the official rate. So effectively investors are betting that the official rate then will be closer to the free market rate.

“The current artificially-low official peso is probably unsustainable so it seems a safe bet for them. Any future change won’t cause any problems for us because we charge our clients at the official peso/dollar rate. And it allows us to benefit from zero cost financing. The bond was ten-times oversubscribed, so we could have borrowed a lot more. However, we don’t want to be left with excess pesos, so we just borrowed an amount that we could put to work immediately.”

“There are companies that can issue

bonds at 0% interest rate in dollars, because they promise to repay in pesos adjusted to the pesos-dollar exchange rate in the future”, says Santiago Carregal, Chairman of Marval, Argentina’s largest corporate law firm. “If you are an Argentine company that earns in dollars but need to pay local costs in pesos, then it is a great financing solution. There are lots of economic actors that have found a way to make money in the situation, so even though everybody always talks about reform I wonder if those winning right now really want things to change.”



## Digital soy

*From pharmaceuticals to fintech, Argentina's knowledge economy is expanding fast...*

Ask international investors about Argentina and you will hear about energy, mining and agriculture. They might even make a joke about the football. But very few of them will tell you that Argentina's 'knowledge economy' is now the country's third-largest export earner. The country has created more unicorns – privately-held tech startups valued at more than \$1billion – per capita than any other country in Latin America.

The surprise rise of Argentina's tech sector is even more incredible when you consider that it coincided with a macroeconomic roller coaster -18 of the last 40 years have been recessions in Argentina. Many of those involved in these tech success stories, think the economic crises drive innovation.

"Bioceres was founded in 2001 in the midst of a crisis in Argentina", says Enrique Lopez Lecube, CFO, Bioceres a Nasdaq-listed crop solutions company with a \$750million market cap. "The founding concept was that Argentina, with its leading position as an agricultural producer and its considerable life science expertise, shouldn't be import-

ing so much foreign farming technology."

Coping with economic chaos has made Argentine entrepreneurs astute risk takers. Take Biosidus, Argentina's first human health biotech, which sells biosimilars around the world.

"To invest in biological medicine in 1980s Argentina was very brave and we were one of the first companies in Latin America to develop biosimilars", says CEO, Mariano de Elizalde. "The firm succeeded because it combined scientific innovation with a risk-taking entrepreneurial attitude." Juan Ignacio Dighero, an Associate at Buenos Aires corporate law firm, Pagbam, agrees. "There is a unique entrepreneurial streak in the country. Argentine founders are used to dealing with uncertainty and that gives them a particular attitude to managing risk."

The economic travails also force local consumers to try new technology, says Lucas Gorganchian, CEO of Prisma, a retail-focused data analysis startup. "The economic chaos is good for encouraging people to adopt innovation.

For example, Argentina was among the top 15 countries in the world for crypto adoption last year because people escape capital controls and inflation." Of course, we shouldn't romanticise economic crises. "It isn't always easy to invest in the long-term in a volatile economy like Argentina's", admits de Elizalde.

### Key ingredients

If a chaotic economy was the only prerequisite for a tech boom, then Africa would be full of unicorns. Clearly Argentina has more than instability in its favour. "Argentina has great human capital thanks to its excellent public and private universities", says Dighero, "so tech firms here can fish from a pool of highly-educated people."

De Elizalde agrees. "The advantage of being based in Argentina is that we can work with the country's high-level scientific institutes and use the excellent human talent being produced by the universities. The labour cost has varied over the years as our exchange rate has been quite volatile but over the long-run it has proved cheaper than the world average – especially when

### Prisma - could this tiny startup become Argentina's next unicorn?

If it is true that 'retail is detail' then Prisma – an Argentine startup making custom-built data analytics software for large retailers – should thrive. "We tell a client like Cencosud (Latin America's largest supermarket chain) to raise the price of a particular item for a particular reason", says Gorganchian. "When you have a phenomenon – i.e. demand increasing at a particular time – there are many variables.

Cencosud has 100,000 SKUs [items for sale] in 100 stores, so there is a huge number of variables that might cause the phenomenon." Prisma is small but profitable, says Gorganchian. "In terms of revenue, we have grown to 1.6million dollars of annual recurring revenue and a combined annual growth rate of 60%. For every dollar we invest in acquiring new customers we get four back in gross revenue. We have been profitable

from the beginning and steadily re-investing our free cashflow in product development. Our profitability is a useful characteristic now that the VC atmosphere has changed and tech companies can't burn through cash between funding rounds. Although we are already profitable, we want to accelerate our growth in Mexico and Brazil. That is why we expect to close a fundraising round by mid-2024."



Mariano de Elizalde, CEO, Biosidus

### How to boost biotech

The government needs to recognise that Argentina biotech firms must be competitive internationally”, says de Elizalde, “because the level of R&D needed for biosimilars is so high that the investment can’t be returned by just selling to the local market.

“There have been some positive measures recently, with the Knowledge Economy Law providing tax benefits for R&D, while the specific Biotech Law and Nanotech Law also give some security to investors in our sector. But

more could definitely be done.

“We also have some disadvantages when competing internationally. One example is that we are paying rights to export vs other local competitors that are receiving subsidies locally to have an advantage (e.g. ‘buy local’ laws for tenders that will always favour a domestic biosimilar producers) Biotech deserves support because it is creating a high-value industry in the country that generates excellent jobs and puts Argentina at the forefront of cutting-edge technology.”

you factor in the quality of the workers.” Gorganchian shares the sentiment but warns that Argentina can’t rest on its laurels. “We have a good education system with excellent public and private tech universities. Our education system might not be as good as it once was but we benefit from the previous four decades. That means we have a great talent pool. Although one of our challenges is that those people want to migrate to other countries.”

One trend that is encouraging Argentina’s talented young professionals to stay in the country is that many are working abroad virtually. That is to say they are freelancing for international firms or working for the regional service centres of multinationals. “Large multinationals like JP Morgan have their regional legal centres in Argentina”, says Santiago Carregal, Chairman

of Marval, Argentina’s largest corporate law firm. “The same happens in engineering. The reason is that Argentina is in similar time zones to the US, has the best English in Latin America and you can hire great professionals for a fraction of what it would cost in the USA.”

### Funding

Argentine tech’s Achilles Heel is finance. “Argentina’s successes have come despite receiving very little funding”, says Gorganchian. “We get just 5% of Latin America’s venture capital, compared to the 50% that goes to Brazil and the 20% that goes to Mexico.

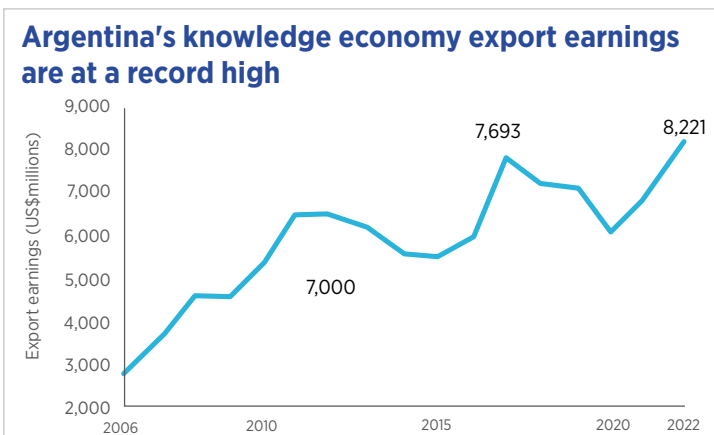
“Many of these Argentine tech companies are incorporated in the US or outside Argentina. While the wealth tax means that many of the founders live in Uruguay. That means a lot of the Ar-

my, it could bring much more dollars.”

“We have leading firms in e-commerce, fintech, biotech, edtech and crypto”, says Dighero. “The only downside is that while Argentina is great at giving birth to these ‘unicorns’ we struggle to keep them here. The capital controls and unstable business environment mean that many of them move abroad. On the plus side, it means their future development is not dependent on the local situation.”

But the Argentine success stories are catching the attention of international investors. “Mercado Libre, the Latin American version of Amazon, is now the region’s largest tech company with a \$63 billion market cap”, says Gorganchian. “The successes of Argentine tech mean that there is now a well-established link with US venture capital firms that are looking to fund the next big hit”, says Dighero. “Typically, they raise and deploy the money abroad, even if most of the development work happens here.”

Over the next decade, Argentina’s incredible knowledge economy success is going to be harder to ignore both at home and abroad. As Dighero says, “Argentina’s tech industry is the new ‘digital soy’ for the economy.”



gentina tech companies actually invoice from outside the country. It’s incredible when you think that the knowledge economy is the 3rd-largest export industry in the country, but if we could normalise the econo-