

# ARGENTINA

An Intelligent Return to the World

## Integrating politically and economically into the world

Argentina is once again attracting interest worldwide following the government's commitment to greater openness



Noriteru Fukushima  
Japanese Ambassador to Argentina



Gabriela Michetti  
Vice President of Argentina



Marcos Peña  
Chief of the Cabinet of Ministers

An "intelligent return to the world" is the Argentine government's way of describing its economic transformation, as initiated by the new administration under the leadership of President Mauricio Macri in 2015.

Marcos Peña, chief of the Cabinet of Ministers, said the government is taking the necessary decisions to once again open up the country to the international community, "Argentina needs to integrate economically and politically into the world in order to avoid the isolation that has been so detrimental in the past."

In recent years, Argentina has begun to attract increased interest worldwide due to the new administration's commitment to greater openness and the government has been extending its wide range of relationships and bilateral treaties, including MERCOSUR and the G-20.

Argentina has one of the largest economies in Latin America and the country has an abundance of human and natural resources.

Its key industries include mining and energy, infra-

structure, transport, logistics, agriculture and technology. Endowed with fertile lands, the country is a leading food producer with large-scale agricultural and livestock industries.

The country also has mining reserves in silver, copper, lithium, gold and potassium, and in addition to its conventional oil and gas reserves, it

**"We want to grow together, through sharing technologies and know-how, and by training staff."**

Noriteru Fukushima, Japanese Ambassador to Argentina

falls in fourth place worldwide in shale oil and in second place for its shale gas reserves.

While Argentina has a strong history of heavy industries, it also has a number of fast-growing sectors, including renewable energies, biotechnology and software development.

In recent years the government has unified the exchange rate, modernized the import regime, reduced inflation and reformed the national statistics system.

With regards to receiving increased foreign direct investment, Mario E. Quintana, the secretary of inter-ministerial coordination, is aware that one of the greatest challenges for international investors is the country's red tape, "If we want to attract best practices and international capital we must not place obstacles in their way."

**"We want to grow together, through sharing technologies and know-how, and by training staff."**

According to Argentina's Vice President, Gabriela Michetti, the government will be putting measures in place to "enable investments and businesses to flourish, promote growth, production, and the generation of wealth."

The government is currently working on facilitating investment, reducing bureaucracy, and providing a stable macroeconomic and regulatory framework with the aim of becoming an attractive

destination for foreign direct investment. It is committed to eliminating the fiscal deficit and cutting inflation to a single-digit figure over the next four years and has lifted capital controls, removed export taxes and reduced utility tariff subsidies.

Japan stands as an example in terms of production and industry for Argentina. Noriteru Fukushima, the Japanese ambassador to Argentina, highlights the importance of collaboration between the two countries: "We do not want Japanese businesses to simply sell or manufacture goods. We want to grow together, through sharing technologies and know-how, and by training staff. We want to create a win-win situation."

He said, "Relations are currently strong between Argentina and Japan," following Prime Minister Shinzo Abe's visit to Buenos Aires in 2016 and with President Macri's upcoming visit to Japan.

Michetti was very positive about her visit: "The truth is we are positively surprised by our extraordinary relationship with Japan. When I went there with a team of ministers of economy, industry, foreign investment, foreign trade, mining and internal revenue, we had 30 meetings with the private and public sector in three days."

"We were able to generate great empathy and understanding regarding the needs of Japanese companies and the private sector in terms of growth, as well as Argentina's needs in terms of creating employment."

## Expansion of the Argentine banking sector on the horizon

Argentina's financial services will play a crucial role in the country's imminent growth cycle

In order to regain trust and credibility, whilst accessing increased financing at gradually more convenient costs, the Argentine government has been implementing a number of important measures to open up the possibilities of obtaining financing from abroad. The goal is also to attract more investment into the exploration and exploitation of the country's wealth of natural resources.

These measures include the removal of foreign exchange restrictions, which had been limiting the private sector's free access to foreign currency; the withdrawal of limitations on overseas dividend transfers; the elimination of mandatory deposits for foreign investments and a reduction in the waiting period for the transfer of funds into the country. The reforms have contributed to improved financial conditions for foreign investment and recently there has been an increase in the acceptance of foreign financing by provinces and businesses that have seen valuable opportunities to fund their projects in this new context.

As financial services will play

a crucial role in Argentina's imminent growth cycle, the Central Bank of the Argentine Republic now encourages the expansion of the banking sector with the aim of tripling its current size in the coming years.

Banco Galicia, established in 1905 and listed in the NASDAQ stock market, is one of the main banks in the country with access to a number of credit lines. Through its commercial banking, mutual fund management and insurance services, it serves large companies and small and medium-sized enterprises (SMEs). It also participates in the consumer finance business through its several subsidiaries.

Banco Galicia's Chairman, Sergio Grinenco, said "Argentina has enormous potential to grow again especially if the economy is opened up, allowing the import of supplies necessary to compete more successfully in international markets."

"Argentina has strong human and natural resources, both necessary factors for growth. However, heavy investment in

infrastructure is needed to consolidate the investments made in new technologies. This way Argentina can grow not only in traditional exports, but also by looking for new alternatives.

"At Banco Galicia we are strategically oriented toward the areas where we can maintain a comparative advantage. These include high-income clients, self-employed customers, SMEs, and our large corporate clientele."

Grinenco says the bank has an excellent relationship with Japanese industrial corporations operating in Argentina. "We have no doubt that if we increase relations with Japan we will be able to provide an even better service to our customers and to Japanese clients who decide to come to Argentina."

José Luis Pardo, president of Banco Mariva, said "Stability has come to stay; there are no problems with income or reserves. The exchange rate will be maintained and there are already policies on how to increase it." He added, "I would advise Japanese businesspeople to come to Argentina."

Banco Mariva focuses mainly



Sergio Grinenco  
Chairman, Banco Galicia

on corporate clients, providing various banking services to large and medium enterprises, financial institutions, and institutional investors in Argentina. It is the only Argentinean bank with a presence in the U.S., which adds to its accountability, "We have started to serve many operators from our broker dealer in Miami," Pardo said.

Pardo says, "Argentina is a very rich country and its varied territory gives it vast potential for investments. The nation produces food for 400 million people, yet has a population of 40 million. The opportunities in Argentina are a given — such as a strong workforce and a good climate. If the political landscape is favorable, Argentina is the best country to invest in."

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We have been investing in Argentina since 1994. Last year, we concluded an investment of more than \$800 million to become a production and export base for Latin America. Today, proud of the work of our 5,000 employees and the joint effort with our supply chain and dealer network, we are celebrating the production of more than 1 million utility vehicles in our Zárate Plant. We are Toyota Argentina.

### A master of exploration and production keeps South America moving

In the business of oil and gas exploration and production in South America, one name stands out. Focused on onshore assets, Andes Energía plc operates in Argentina, Colombia and Paraguay. AEN boasts approximately 25 MMbbls of conventional oil reserves, and certified prospective resources of 640 MMboe, mainly in the Vaca Muerta shale development in Argentina's Neuquén Basin, and more than 7.5 million acres across South America. Vaca Muerta is the second-largest shale oil deposit in the world, and over 300 wells have been drilled and fracked at the site. It is lauded as the best outside of North America.



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# Creating competitiveness for Argentina

*With much of Argentina's diverse industry portfolio now well developed, the next step will be to boost competitiveness*

Industry stands out as one of the most developed aspects of the Argentine economy, with vast potential for development remaining particularly within the realms of new technological innovations.

The country's key industries include the food industry, the chemical industry, the metallurgical industry, the automotive and the base metals industry. Industry overall, is highly labor intensive, with employees making up one-fifth of the

labor, logistics and energy, generating competition; introducing technologies and innovation; integrating into the world; lowering bureaucracy; and a complete tax reform."

According to Cabrera: "We have a lot of industry which is very sophisticated yet not very competitive. Therefore our challenge is how to create competitiveness. We want to integrate Argentina into the commercial world."

Cabrera is optimistic that

exports, with industry accounting for one in every three units of foreign currency entering the country through trade.

The government is working on a number of measures to prepare for an intelligent integration into the global market. With the aim of fostering an environment of higher predictability and competitiveness, it is implementing specific public policies that will lead to financing with more competitive conditions with regards to access, terms, interest rates and tax reductions.

Furthermore, the country has been consolidating its modern and diversified manufacturing, participating in international fairs and advancing trade agreements with partners. The government is also focusing on improving infrastructure as a means of reducing production costs.

Recently investments announced for industry have reached \$8.7 billion among a total that so far exceeds \$30 billion.

Argentina has been working closely with Japanese agencies, sharing expertise in technology and providing company



Francisco Cabrera  
Minister of Production

training. There are a number of success stories of Japanese companies operating in the country.

In Cabrera's view, "Japanese companies work really well in Argentina: they are productive, they export, they do not have union issues, they insert themselves into the community and they have a culture of supplier development and transferring their know-how. They are able to transform the small and medium-sized enterprises (SMEs) that they work with. We can now see Argentinean companies that have adopted the Japanese management style and have been very successful."

Japan is a model example for Argentina, particularly in terms of production and industry. The case of Toyota is the perfect example of how a



Daniel A. Herrero  
President, Toyota Argentina

Japanese company can thrive and contribute to job creation and growth. Possibly the most successful Japanese company in Argentina, it was established in 1997, and has grown exponentially with the number of employees increasing from 450 to 5,000. Not long ago, Toyota was recognized as the fourth-best company to work for in Argentina.

Having recently reached the production of 1 million cars, there is no doubt that Toyota has been very successful in Argentina. Toyota's President Daniel A. Herrero said: "It took us 15 years to produce the first 500,000 and five years to produce the next 500,000. This goes to show that we are growing successfully. We are happy, but we have to continue working hard."

The brand is highly regarded, with the Hilux being the best-selling car in the country last year. Toyota has also brought the Prius, the world-renowned hybrid car, to Argentina. Herrero said: "We were the first company to bring a hybrid to Argentina. Collaboration between the private sector and the government will be needed to introduce these types of vehicles and increase consumer awareness about the importance of caring for the environment."

"As environmentally friendly technology is more expensive, the government plays a key role in promoting its introduction."

Herrero said, "Incoming investment from Japan is going to be a win-win situation for everyone. This will especially help with infrastructure where Argentina still has a long way to go."

With regards to competitiveness he said, "We are working on the value chain and have used technical agreements with Japanese companies that have allowed us to make our processes as productive as international ones. This has allowed us to be a company working in Argentina, but exporting 73 percent of what we produce."

Herrero emphasized the importance of Toyota's growth

in the region: "In order to compete across the globe we became strong regionally and today we sell pickup trucks from Argentina across Latin America. We expect to continue growing since producing locally you can have greater economies of scale."

"There is great potential for growth and it must be seized, but we must try to make the cars regionally. The automotive industry has been polarized and right now only Brazil, Argentina and Mexico produce cars, which presents a great opportunity. Also we have the advantage that Latin Americans' perceived value of Japanese products is very high."

In the coming years Herrero believes that Toyota is likely to specialize in commercial vehicles, adding, "The brand has a great relationship with Argentinean consumers. If we continue as we have been to date we will be the ones to set the limit."

With regards to the reforms undertaken by President Mauricio Macri's government Herrero said, "Given the determination with which these measures have been taken, we can be pleased. I believe the measures support industrialization and are heading in a clear direction toward creating

competitiveness for Argentina and consequently increased growth.

"If we look at the problems that have been confronted — the government has managed to normalize the exchange rate, come out of the default, and take the right measures in terms of competitiveness. If we look at upcoming changes to infrastructure and the tax system, we can see that improvements are on their way."

Herrero has a positive outlook for the continent at large. In his view: "Latin America as a wider region has vast potential. Fifty percent of the soy of the world is planted in MERCOSUR; in terms of mining it is a region with great resources and unlike any other in the world."

"With regards to non-conventional oil, Latin America is number two or three, and the same with gas. We have plenty of water and we have an inverse population pyramid to the Japanese, with a very young population."

"There is great potential and the respect that Argentina has for Japan means we will always welcome them and look to Japan as a reference. I believe there is a very good relationship based on respect, which leads Argentineans to want to learn from the Japanese."

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Daniel A. Herrero, President, Toyota Argentina

country's formal workforce.

Argentina has an alarming 33 percent of its population living under the poverty line. Reducing poverty is one of the president's main objectives and can be solved through job creation. Francisco Cabrera, minister of production, said that the country's road map to create employment includes "lowering the cost of capital,

there will be great opportunities to be seized. "Argentina has the potential to be very competitive and it is likely to have a very important regional role," he said.

Although nearly 75 percent of its industrial production is destined for the domestic market, over the last 20 years the Argentinean industry sector has trebled its volume of

## Energy: a key stimulus for the economy

*The energy sector is the greatest source of income for Argentina with large reserves and much of its territory still to be explored*

There is significant scope to further explore the Argentine energy sector: the country has 24 continental and oceanic basins, out of which five are currently being exploited. The government has therefore been opening up opportunities for foreign investors, with the aim of gaining new technologies, capital and know-how.

The wealth of Argentina's fossil resources demonstrates

the sector's potential. Proven conventional oil reserves amount to 2.5 billion barrels while those of conventional gas reach 12 Tcf (trillion cubic feet).

Furthermore, areas that remain unexploited hold technically recoverable resources that would increase reserves by 2.2 billion barrels of oil and 42 Tcf of gas. Argentina also has a range of renewable energy opportunities.

Minister of Energy and Mining, Juan José Aranguren, said "We want to have an energy matrix that will respond to the demands of the Argentinean people and that at the same time will optimize Argentina's vast variety of resources."

Argentina's unconventional hydrocarbon deposits place it among the world's leading countries in this sector. The country has the world's second-largest shale gas reserves; the fourth-largest shale oil reserves; proven unconventional resources equivalent to 11 times more than the current oil reserves, and 70 times more than the gas reserves.

The reform of public policies has led to renewed confidence and an investment surge in the sector.

In the first half of 2016, companies announced almost \$7 billion in investments to



Juan José Aranguren  
Minister of Energy and Mining

advance the upstream and downstream phases.

Listed on the London Stock Exchange, Andes Energía (AEN) explores, develops and produces oil and conventional and non-conventional gas, and has operations in Argentina, Colombia and Paraguay. The group primarily focuses on conventional oil and gas, providing services to help foreign investors work with local authorities.

As the fourth-largest

company in terms of exploration, AEN offers a joint venture to companies that wish to come to Argentina. Nicolás Mallo Huergo, President of the Latin-American energy group AEN, says energy is a key sector due to the country's great potential in natural resources. He recommends working with a local partner when coming to invest:

"The Argentine market is complex because the resources belong to the provinces and not to the state. Therefore, sometimes it is subject to different regulations and management, which can make it difficult to act without knowledge of the local context. This makes it essential to have a local partner when you are a foreign investor."

"Our work on conventional crude oil has been fully developed and we will continue oil production at a low cost. We will also be putting our efforts into developing our work with unconventional oil, and we are currently looking at the gas portfolio, which has great potential."

In Huergo's view, "the government is taking the right measures, which has led to positive reception from the international community."

At present AEN is seeking partners with industry knowledge and has expressed the company's interest in partnering with countries like Japan: "For local oil production and gas exploration, there is a lot

**"The government is taking the right measures, which has led to positive reception from the international community."**

Nicolás Mallo Huergo, President, Andes Energía (AEN)

of know-how developed in Argentina. The human capital here is very good, but we seek partners who can support new knowledge, technology and machinery."

With 75 years investing in Argentina, Meranol — an expert in petrochemicals — is one of the few local companies in the sector to compete with

multinationals. The company opened in Germany in 1888, but had to flee the country during WWII and has since been operating in Argentina. Meranol is very thankful to Argentina for giving them the opportunity to start again.

Meranol's President Rodolfo Pérez Wertheim said, "Our products are consumed across all of the industries in the

any future situation." Meranol is always open to collaborating with partners that would accompany them in working on chemicals in which they have experience and know-how.

Pérez Wertheim's message to the Japanese investor is: "There are many opportunities and to materialize them we have to take into account the reform measures this government is working on. At present, the focus is on improving predictability and giving legal security to investors. The government must generate security and trust in order to attract international investors so that they come and seize the opportunities in areas such as energy and logistics."

"We must try to integrate regional economies and work on improving logistics to promote our products and grow. Argentina has great quality products, which should make the country stand out."

This report was produced by Global Insight and can also be read online at: [www.japantimes.co.jp/international-reports](http://www.japantimes.co.jp/international-reports)

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