



# Investment opportunities in Argentina

**A primer for UK investors**

August 2017

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# Investment opportunities

In March 2017, the UK government announced that for the first time in 20 years it would offer export credit finance for British businesses looking to invest in Argentina, amounting to £1 billion in support.<sup>(1)</sup>

This represents a significant opportunity for UK companies looking for growth in international markets. Bilateral trade between the UK and Argentina is worth approximately £1.3 billion and set to grow in value. Over 125 British companies are currently investing in the country, ranging from FTSE 100 companies to small and medium-sized businesses. In the third trimester of 2016 British exports to Argentina registered an 8% year on year increase. Key exports include pharmaceuticals, alcoholic and non-alcoholic beverages, precious metals and electrical and power generation equipment and machinery.<sup>(2)(3)</sup>

In this brief, we examine some of the drivers and opportunities for foreign investment in Argentina and identify the challenges that UK companies will need to navigate to successfully enter the Argentine market.

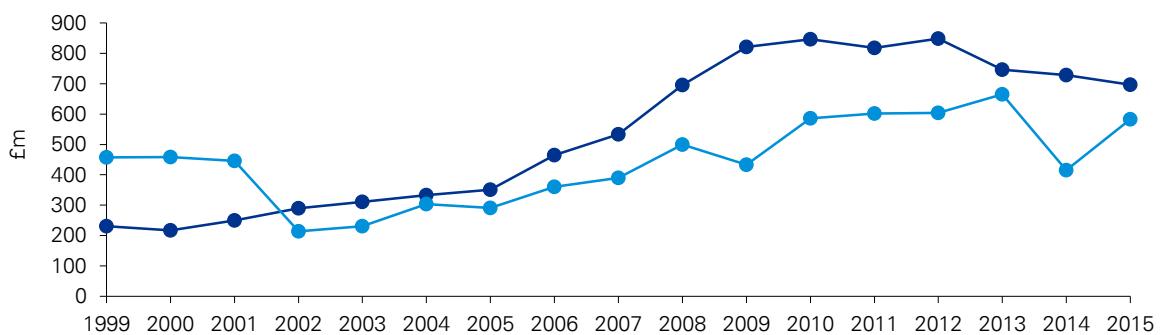
## Strengthening ties

International Trade Minister Greg Hands led a trade delegation to Argentina in March during which two key agreements were signed: an updated Air Services Agreement, increasing air links between the UK and Argentina, and a Memorandum of Understanding, creating the UK-Argentina Commercial Dialogue Group.

The UK government's announcements reflect its desire to forge trading relationships in South America as it leaves the European Union, perhaps with a view to negotiating a trade agreement with the Mercosur bloc, but also its recognition of Argentina's trading potential.

The announcements are likewise a reflection of improving political relations between the UK and Argentina since Mauricio Macri was elected president, as underlined by a joint communiqué signed in September 2016 to deepen cooperation in areas such as trade and investment, science and international peace and security.<sup>(4)</sup> In recent years Argentina's economy has begun to open up to foreign investors after over a decade of rule under Néstor and Cristina Fernández de Kirchner. Argentina will host the G20 presidency in 2018 and has signalled its intentions to join the OECD.

## UK-Argentina import and export data from 1999 to 2015



Source: The Office of National Statistics.

— Import    — Export

Sources :

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# Investment drivers

The outcome of the Argentine presidential elections in late 2015 led to a shift in the country's economic direction. The administration of Mauricio Macri has sought to reintegrate Argentina into global capital markets, breaking with the expansionary macroeconomic policies of the previous Kirchner governments. The current administration lifted currency controls and floated the peso at the end of 2015, and in early 2016 reached an agreement with US holdout creditors, paving the way for the country's long-awaited return to international bond markets. It has also cut state

spending and reformed the imports system, income tax code and national statistics centre. A tax amnesty initiative has resulted in the declaration of USD 116.8 billion in assets held abroad. Export taxes on products from the agricultural and industrial sectors have been cut or eliminated. The government is expecting to double foreign direct investment in 2017 and hosted the first Argentina Business and Investment Forum in September 2016. The economy was in recession in 2016 but according to the IMF is expected to grow by 2.4% in 2017 and 2.2% in 2018.

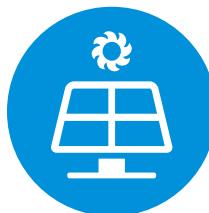


# Investment opportunities

UK ministers and diplomats have highlighted several key investment areas for British companies in Argentina, including energy, financial services, drinks, healthcare, agro-industry, infrastructure and technology.<sup>(1)(2)</sup> The following are several of the economic sectors with new opportunities for foreign investors in Argentina:

## Renewable energy

The government has described 2017 as the 'year of renewable energy' and plans for 20% of the country's electric energy to be sourced from renewable sources by the end of 2025.<sup>(3)</sup> Plans for Round 2 of RenovAr, the government's renewable energy auction, are due to be published in August 2017 and feature improved conditions for investment in the biogas and biomass sectors.<sup>(4)</sup> The country's treasury minister has stated that he expects foreign direct investment in 2017 to be boosted in part by successful renewable energy bids.<sup>(5)</sup>



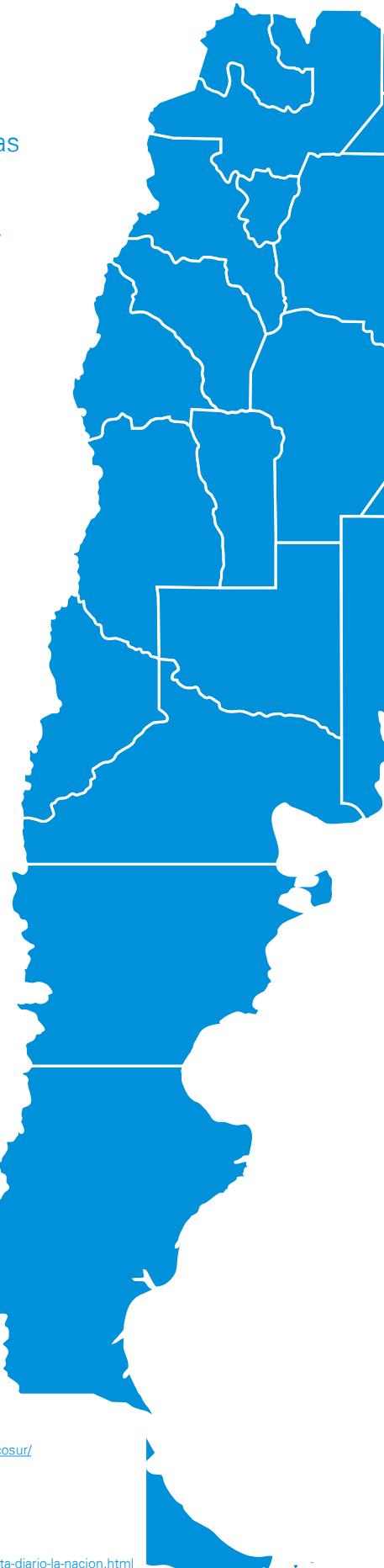
## Mining

The Argentine government is hoping to attract foreign investment worth up to USD 25 billion in the mining sector by 2025.<sup>(6)</sup> At an investment seminar on Argentina attended by the treasury and mining ministers in London in March 2017, fifteen prospective projects for the extraction of lithium, gold, silver and copper were announced.<sup>(7)</sup>



## Infrastructure

In February 2017 the government announced a National Transport and Infrastructure Plan, which it anticipates will attract USD 33 billion in investment by 2019, USD 8.35 billion of which will come from the private sector. The plan, already in implementation, envisions 2,800km in new motorways by 2019, upgrades to major ports and freight railways, increased road links with Chile, growth in the internal aviation market and improvements in urban public transport.<sup>(8)</sup>



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## Agro-industry, foods and beverages

Agro-industry accounts for 25% of the Argentine manufacturing sector and 40% of national exports,<sup>(1)</sup> with a total value in 2015 of USD 36 billion.<sup>(2)</sup> Argentina is a global food producer with large-scale agricultural and livestock industries.<sup>(3)</sup> Argentina is the world's fifth largest wine producer<sup>(4)</sup> and 10% of its wines are exported to the United Kingdom. Sales of Argentine wines in the United Kingdom are expected to grow by 22% in 2017.<sup>(5)</sup>



## Oil and gas

The government has sought to boost oil and gas production to help reduce Argentina's reliance on energy imports. In late May 2017, the energy minister stated that USD 10 billion in investments were expected in 2018 at Vaca Muerta, the world's second largest shale gas deposit, rising to between USD 15 and 20 billion a year as of 2019.<sup>(6)</sup>



## Automotive industry

The automotive and auto parts industry represents 9% of the gross value of Argentina's industrial production, and features several of the largest carmakers in the world.<sup>(7)</sup> In March 2017 the government announced plans to produce one million cars by 2023,<sup>(8)</sup> and representatives of the automotive industry have predicted sectoral growth in 2017 to reach 20%.<sup>(9)</sup>



## Information and Communication Technologies (ICT)

Argentina's ICT sector is fast-growing and increasingly export-oriented. Argentina's software exports in 2015 were worth USD 1 billion, representing a growth of 307% since 2005.<sup>(10)</sup> There are over 100,000 full-time equivalent positions in the outsourcing or near-shoring sector in Argentina, from which foreign companies have benefited<sup>(11)</sup> The country's time zone, skilled English-speaking workforce, modern telecommunications infrastructure and high level of broadband penetration are all advantageous for prospective investors.

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# Challenges

Argentina offers a diversity of investment opportunities across a number of economic sectors, and the government has already begun implementing reforms designed to boost investor confidence. However prospective investors should be aware of the remaining political, economic and regulatory challenges.

## Politics

The government is pinning its hopes on an economic rebound before legislative elections in October 2017, where it will be hoping to preserve its fragile parliamentary coalition. The elections will also determine whether the government secures a mandate to push through its legislative agenda before the 2019 presidential elections, as well as shape the chances of Mauricio Macri participating in them. Results in the Buenos Aires province, where former president Cristina Fernández de Kirchner is running for senator, will be particularly crucial to the overall outcome. A number of investors have expressed their desire for political continuity with the Macri administration.<sup>(1)</sup>

## Economics

Inflation remains high, hitting an annual rate of 40% in 2016, although it has decreased in 2017.<sup>(2)</sup> The treasury minister has stated that the fiscal deficit will be 4.2% in 2017 and that the government will try and reduce it year-on-year by one per cent.<sup>(3)</sup>

## Operational issues

Corruption and the declining quality of infrastructure and public services such as transport, education and healthcare remain key issues.

## Regulatory barriers

Regulatory barriers to domestic and foreign competition are higher in Argentina than in most other emerging market countries. The

OECD has recommended reducing these, as well as reforming employment protection legislation to liberalise the labour market. It has likewise suggested establishing transparent and effective administrative procedures to stimulate foreign trade.<sup>(4)</sup> The government has already set out to implement several of these recommendations, although its plans for overhauling the tax system, also highlighted as a priority by the OECD and foreign investors, have been delayed until 2018 after the legislative elections.<sup>(5)</sup>

## Bureaucracy and ease of doing business

Argentina is currently ranked 116th in the World Bank's ease of doing business index and continues to present a range of challenges for existing and potential investors.<sup>(6)</sup> The process of starting a business in the country partly depends on the legal form of the company the investor is seeking to establish, and can take up to a month to complete;<sup>(7)(8)</sup> it is hoped that a newly passed Entrepreneurship Law, which would allow a simplified joint stock company to be set up within 24 hours,<sup>(9)</sup> will help eventually streamline the process. Argentina's tax laws are complex and constantly in a state of flux, and the World Bank ranks the country 178<sup>th</sup> for ease of paying taxes.<sup>(10)</sup> While the Macri government relaxed import restrictions soon after coming to power, a large proportion of products remain subject to non-automatic import licences; the EU estimates that 26% of its exports to Argentina are affected by such restrictions.<sup>(11)</sup> The World Bank ranks Argentina 173rd for ease of dealing with construction permits; on average it takes nearly a year and 21 procedures to gain necessary permits for a standardised warehouse in Argentina to be built.<sup>(12)</sup>

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- (1) [https://www.clarin.com/politica/ltio-oro-plata-estrellas-road-show-inversiones-londres\\_0\\_B1mpuRToe.html](https://www.clarin.com/politica/ltio-oro-plata-estrellas-road-show-inversiones-londres_0_B1mpuRToe.html)
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- (12) <http://www.doingbusiness.org/data/exploreeconomies/argentina#dealing-with-construction-permits>

# Conclusion

The election of Mauricio Macri, and the policies undertaken by his government, will in many observers' eyes, enable far greater levels of foreign investment in Argentina over the coming years. While the challenges for investors in Argentina are both numerous and varied, those that are able to understand and follow its evolving political, economic and regulatory landscape will be best equipped to exploit the country's new economic opportunities.

# How we can help

Our dedicated Corporate Intelligence team in London has been helping clients to enter new markets and establish foreign business partnerships for more than ten years. Clients rely on our practical advice and local knowledge to execute cross-border investments around the world. We offer a range of approaches from market entry planning, country risk assessment and stakeholder mapping to due diligence and identification of local partners to help execute the business plan. We have strong expertise in Latin America and Argentina, in particular with Spanish-speaking specialists that have lived and worked in the country alongside colleagues in Buenos Aires with first-hand experience of the issues encountered by foreign companies. Speak to us about how we can help you establish a roadmap to investing in Argentina, while identifying opportunities, managing risk and overcoming the practical challenges involved in converting opportunities in the market as a UK-based company.

## Contact us

To discuss these risks further and how KPMG's corporate intelligence team can help, contact:

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