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FEATURED Q&A

What Does the Future Hold for Argentina's Trade Relations?

Q Argentine President Cristina Fernández de Kirchner returned to Buenos Aires on Wednesday after visiting the United Arab Emirates, Indonesia and Vietnam to promote trade ties. What do those Asian countries and Argentina have to gain from each other? What outcomes would make the trip a success? Will disputes with the United States, European Union, Japan and others at the WTO hamper Argentina's future trade prospects?

A Claudio Loser, senior fellow at the Inter-American Dialogue, president of Centennial Group Latin America in Washington and former head of the Western Hemisphere Department of the International Monetary Fund: "Argentina's current economic ties with the UAE, Indonesia and Vietnam are limited. Total shipments from Argentina to these countries amounted to some 3 percent of total exports in 2011, mostly in the form of agricultural commodities. Argentine imports from these countries amounted to less than one percent of the total. While trade opportunities with these countries may exist, the potential in this area is limited in light of the existing trade restrictions applied by Argentina and the narrow choice of products that the country can offer. This looks more like theater, namely attempting to show that Argentina can act independently from its traditional trading partners. This has been a common theme of Peronism of most shades since the 1940s. Still, except for Japan in the past and China now, trade structures have not changed much. Nonetheless, President Fernández de Kirchner hopes that the countries she visits will be willing to trade with Argentina, in spite of its dismal trade and debt behavior. Moreover, she believes that the UAE can provide financing and help in terms of fuel extraction technologies. In light of recent experiences with the seizure of Argentine assets and legal disputes in courts and in international organ-

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Brazil Cutting Power Costs More Than Previously Announced

Brazilian President Dilma Rousseff announced Wednesday that her government will cut power costs for individuals and industry more than previously announced. The announcement comes amid rising inflation in the region's largest economy. See story on page 2.

File Photo: Brazilian Government.

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NEWS BRIEFS

Mexican Retail Sales Rose 1.1 Percent in November

Retail sales in Mexico grew 1.1 percent in November, the most since June, according the national statistics office, Reuters reported Wednesday. Year-end bonuses and a long weekend with many sales helped fuel the increase, the office said. The increase was less, however, than the 1.9 percent predicted in a poll by the wire service. Continued economic problems in Europe and the United States have moderated growth in Mexico. The country's central bank said it would cut interest rates if inflation continues cooling and the economy lags.

Mexico Expansion Fuels Profit of First Cash Financial Services

First Cash Financial Services, a Texas-based chain of pawn shops, said Wednesday that expansion in Mexico helped boost its net income by 29 percent in the fourth quarter, the Associated Press reported. Net income rose to $27.6 million on total revenues of $179.2 million during the quarter. Revenue from stores open at least a year rose 13 percent in Mexico, compared to only 3 percent in the United States. The company said it is opening 75 to 85 new stores this year, most of which will be in Mexico.

Credit Suisse Banker Leaves to Start Investment Company

The head of investment banking at **Credit Suisse**, Pedro Chomnalez, is leaving to start his own company, **CG Capital**, which will focus on private equity investments in emerging markets, Bloomberg News reported Wednesday. Chomnalez has run the company's Latin America Group since 2004. Initial investors with CG Capital will include families in Latin America and Europe, he said.

Political News

Venezuela Uncovers Plot Against Government: Maduro

Venezuela's government has uncovered a plot to attack top leaders of the country, Vice President Nicolás Maduro claimed Wednesday, the Associated Press reported. In a speech to supporters, Maduro said "groups that have infiltrated the country" were planning to attack him or National Assembly President Diosdado Cabello and would then "try to blame one or the other." Maduro did not release any evidence about the alleged plot or describe what types of attacks authorities uncovered. He also did not announce any arrests, but suggested some could occur. "Don't be surprised by the actions that will be taken in the coming days," he said. Maduro and Cabello have frequently appeared together since Chávez departed for Cuba where he underwent his fourth cancer surgery last month. Maduro and Cabello have insisted they are working together, despite speculation about divisions between them. After making the announcement, Maduro left for Cuba to visit with ailing President Hugo Chávez. Government officials have said Chávez's condition is improving after he suffered a severe respiratory infection following his Dec. 11 surgery. On Wednesday, thousands of Chávez supporters rallied in the streets of Caracas. Many wore T-shirts bearing an image of Chávez's eyes and gathered in the working-class neighborhood of 23 de enero. Venezuela's last dictator, Gen. Marcos Pérez Jiménez, built the neighborhood, which was later named for the Jan. 23 date of his ouster. "Our president has brought true democracy to our country. Nobody should believe opposition leaders who say that Chávez is a threat to democracy," one of the demonstrators, Angel Colmenares, a 44-year-old brick mason, told the AP. Venezuela's opposition had planned a protest for Wednesday, but scaled back the demonstration after the government announced that Chávez supporters would rally that day in the capital. "They wanted a confrontation between Venezuelans," said opposition leader Henrique Capriles, the governor of Miranda state. The opposition's protest in a Caracas basketball arena drew thousands of demonstrators. At the event, Capriles dismissed the purported plot against top government officials by pointing out the country's high murder rate. There are "attacks every day against more than 50 Venezuelans," he said.

Maduro

File Photo: Venezuelan Government.

Economic News

Brazil's Government Cuts Power Costs More Than Expected

Brazilian President Dilma Rousseff announced Wednesday that her government will cut power costs more than expected as part of its efforts to curb inflation, Bloomberg News reported. "Beyond anticipating the enforcement of the new rates, the cut is bigger than previously announced," Rousseff said in a televised address. The cuts will take effect today, rather than in February as earlier announced and will slash electricity costs by 18 percent for individuals and 32 percent for industry. In September, the government announced it would cut power costs by 16.2 percent for individuals and 28 percent for companies. Consumer prices in Brazil for the one-month period ending Jan. 15 increased more than forecast by all economists in a recent Bloomberg survey. Inflation increased for the fourth consecutive month, to 6.02 percent, the quickest pace in a year, Brazil's national statistics agency announced Wednesday. Inflation in Brazil has remained above the central bank's target since August 2010. Consumer

Inflation increased this month to the highest level in a year.

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prices have been rising amid Brazil's record-low unemployment and the government's efforts to spur demand by cutting taxes and expanding credit. Rousseff has put pressure on utilities, including **Eletrobras**, to cut rates in exchange for 30-year license renewals. The larger-than-expected cut in power costs will reduce pressure on inflation only temporarily, Luciano Rostagno, chief strategist at **Banco WestLB do Brasil** told Bloomberg News. "The government is using administered prices to control inflation, but it doesn't solve the numerous bottlenecks the economy faces," he said. "The inflation dynamics are very unfavorable." Rostagno forecasts that Brazil's annual rate of inflation will decline to 6.14 percent next month from 6.20 percent this month, but will increase beyond 6.5 percent in the second quarter. The central bank targets inflation at 4.5 percent, plus or minus two percentage points.

Company News

Vale Suspends $5.9 Billion Potash Project in Argentina

Brazilian mining giant **Vale** confirmed Wednesday that it has indefinitely suspended its $5.9 billion Rio Colorado potash project in Argentina, the *Financial Times* reported. Vale, based in Rio de Janeiro, said workers had not returned after a Christmas break. The project, located in Mendoza province, was first disrupted after local authorities halted operations, alleging that Vale had failed to adhere to requirements for local hiring and purchasing of supplies. The nationalization of **YPF** by the government of President Cristina Fernández de Kirchner last year also raised concerns about Vale's project, which had been expected to begin producing 2.4 million metric tons of potash annually beginning next year. However, the project has more recently been targeted in Vale's efforts to cut costs. In December, Vale cut the project's budget from $1.08 billion in 2012 to $611 million for 2013. Roger Downey, the executive director for coal and fertilizers, said Vale was slowing down the Rio Colorado operation and searching for a potential partner. Authorities of Vale and Argentina's government have said there is no plan to cancel the project completely. Vale previously announced that it would cut its total investment by $1.2 billion this year as it copes with a slowdown in its main markets.

Vale has targeted the project as part of its cost-cutting efforts.

Featured Q&A

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izations (World Bank, WTO), it is unlikely that this visit will change the trade and finance pattern in any significant way. However, the show will play well domestically, even as she leased a private plane from Britain, of all places, because of fears regarding judicial actions against the presidential plane, 'Tango 1.' "

Horacio Verbitsky, president of the Center for Legal and Social Studies in Buenos Aires: "The president's trip champions the diversification of trade, both by increasing the total but also by varying its make-up. Argentina's second-biggest trade destination is Asia at 21 percent—only behind Latin America's 41 percent. It exceeds Europe's 18 percent and North America's 8 percent (more than half of which is with the United States). But when you look at the composition of those sales, Asia only absorbs 4 percent of Argentina's industrial manufactures exports. The United Arab Emirates could absorb high value-added goods like nuclear technologies and be a source of investment that Argentina needs. The trade structure minimizes the importance of the complaints against Argentina at the WTO, such as recent reprisals from the European Union and the United States. Moreover, it is unlikely that Argentina will be condemned since its imports from these regions grew well above the global average. The trip also had the goal of strengthening South-South ties and bolstering Argentina's critical positions in the G-20 of what Fernández calls 'anarcho-capitalism,' which features complete deregulation, 'financialization' of the economy and fiscal havens (where the vulture funds, which seized the ship 'Libertad' in Ghana and initiated litigation against Argentina in New York, operate)."

José Octavio Bordón, member of the Inter-American Dialogue and former Argentine ambassador to the United States and presidential candidate: "Argentina's trade activities are usually isolated responses and often short-term, as it faces a new global economic scenario and both domestic opportunities and difficulties. Argentina has no intention of aligning itself with the countries that Kirchner is visiting or creating conflicts with the United States, Europe or Japan. Argentina's exports to the United Arab Emirates, Indonesia and Vietnam are concentrated in low value-added products, but there is an expectation of increasing agro-industrial products and other higher-value added goods. Additionally, there is the signing of technological cooperation agreements and piquing the interest of foreign investors. The trade balance with the three countries is highly favorable to Argentina, and 2011 exports exceeded $2.5 billion. Argentina's degree of openness in 2008 was relatively high; external trade represented 40 percent of GDP. Worries about the fall in global demand, domestic difficulties in facing external debt payments and growing energy imports resulted in a decrease in openness; in 2012, trade represented a little bit more than 30 percent of GDP. Exports fell from 18 to 16 percent and imports fell from 16 to 14 percent. They succeeded in achieving the goal of a trade surplus of more than $12 billion,

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Featured Q&A

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but at a significant cost to the level of economic and investment activity. Argentina isn't a typical case of protectionism. The problem is that the government doesn't understand production and trade in the 21st century. Its protection measures are dated, unlike those who practice protectionism with greater sophistication. This ignorance winds up affecting the competitiveness of the Argentine economy and puts the important economic and social gains of the last decade at risk."

Juan Cruz Díaz, managing director of Cefeidas Group in Buenos Aires: "Although Cristina Fernández de Kirchner's main goal is to look for investment and trade opportunities, she also hopes to build economic and political ties with these countries. The president has already seen some successes in the United Arab Emirates, where she met with the crown prince and representatives of the Abu Dhabi Investment Authority, ending in four cooperation agreements. In Indonesia, Kirchner thanked President Susilo Yudhoyono for continued support of Argentina's claims to the Malvinas; the leaders also signed agreements for investment, air transport and agriculture, and displayed Argentine products. They agreed on their positions regarding the WTO and biofuels, planned for the Indonesian president to visit Argentina and for Kirchner to meet with the Indonesia Business Chamber. Relations with Vietnam have become stronger since 2005. Ideally, this trip will further existing trade (Argentina provides raw materials and animal products) and strengthen the bilateral relations. Despite Argentina's disputes at the WTO, the main challenge for the country's trade prospects will be in the internal front. As things stand, Argentina's current task is to manage its own economic policy. Trade restrictions, competitiveness, conditions for foreign investors and exchange rate policies are among the big issues that the administration will need to balance with the many internal domestic pressures. Argentina's tightened policies have made trade more expensive and complicated, while currency restrictions create an uncertain economic environment. But then again, Argentina's biggest concern is really the performance of Brazil and China, two of its primary trade partners. Argentina's economy in general and trade prospects in particular rely greatly on them."

The Advisor *welcomes reactions to the Q&A above. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org with comments.*

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