Because of its importance, any joint strategy between Brazil and Argentina over the future of their bilateral relations should always be mindful of the accumulated assets and the many opportunities still open for both countries. As a reminder of this legacy, it is worth mentioning that between 1991 and 2013 the flow of Brazil and Argentina trade increased twelvefold. The dynamism of our relations requires constant effort both in the short and the long term. Despite remarkable advances, Brazil and Argentina still have huge potential to explore, especially with regard to integration of their production structures.

Transport and energy integration offers ample investment opportunities around projects of common interest, as shown in studies for connecting the rail networks of the two countries conducted ... In the energy area, beyond the different projects for shared utilization of hydropower resources in the La Plata Basin, there are talks about reactivating the thermal power plant at Uruguayana in the south of Brazil using Argentina’s gas. Such initiatives allow expansion of investments by both countries, which already are quite significant: Brazilian companies have invested US$17 billion in Argentina and Argentine companies have invested US$8 billion in Brazil.

Everton Vargas
Brazil’s Ambassador to Argentina

“The prospect of Brazilian investment in Argentina will be buoyed in 2015 by four events: (1) the negotiations with holdout investors in Argentine debt; (2) the general elections, which will elect one-third of the Senate, half of the Chamber of Deputies, and a new president; (3) China’s financial contributions for infrastructure investment agreements in Argentina; and (4) the presidential elections in October 2014 in Brazil and Uruguay, whose new governments may redefine their bilateral relations and, further, review the Mercosur agenda. As for Brazilian business interests, we can expect a waiting period and eventual deterioration of commercial practices if Argentine authorities persists in the habitual use of populist and protectionist expedients. Indeed, 2015 will be a lost year; economic activity in Argentina should renew when the new government takes over in January 2016.”

Alberto Pfeifer
Secretary, Committee of Institutional and International Relations, and council member, Argentine-Brazil Chamber of Commerce

ARGENTINA WAS IN THE NEWS throughout the year with reports on higher inflation, economic stagnation, and various bouts of arm-wrestling related to the New York court decision that it must pay holdout bond investors. Given that situation, “whoever looks at the short term will not have much to see beyond an economic crisis and a period of great instability,” said José Maria Fanelli, an economist at the Center for the Study of State and Society.

Fanelli described a country whose dynamics until 2008 resembled that of other Latin American countries that benefited from high commodity prices, saw their currency appreciate, and raised public spending. “Argentina does not differ much from other countries,” Fanelli said “What differs is our mess.” In some aspects, the country was more conservative than most of its neighbors. Fanelli explained that “We were dedicated to paying down foreign and domestic debt. After the debt renegotiation, net public debt was only 18% of GDP, and Argentines have significant savings deposited abroad. In the future, we should not have pressure on the external current account in terms of income payments.”

However, after the 2008 crisis, Argentina’s fiscal deficit began to widen, financed by printing money, which pushed up inflation. Exports dropped significantly as Brazilian imports and Chinese demand for soybeans fell even as public spending was rising. But “These numbers alone do not produce a crisis,” Fanelli said, pointing out that the true tipping point was the substantial increase in government subsidies to consumers of transport services and energy. From 2005 to 2011, these subsidies went from 0.65% to 3.45% of GDP. Fanelli warned, “We have destroyed the energy sector, turning its surplus of US$5 billion in 2004 into a deficit of US$7 billion in 2010.”

Fanelli believes the distortion caused by energy policy is the number one reason for low growth because it has an impact on both the external and the fiscal accounts. Energy subsidies now represent about 4% of GDP—about the same as the budget deficit the country is struggling to finance. “The fiscal issue would be resolved if the Argentines paid their own electricity bills,” Fanelli said. How the energy bill will be paid will determine whether the economy will recover or fall into recession. Most of the answers are likely to be held off until after the presidential elections in 2015. “Once the energy issue is resolved,” Fanelli concluded, “Argentina will have a good outlook, including investment opportunities in the energy sector with the discovery of shale gas in the Vaca Muerta, and low public debt.”