



Economic Outlook & Opportunities for Swiss Companies in Mercosur

Switzerland Global Enterprise, 28 November 2018

Fabio Speciale – Senior Consultant South America

Agenda

- 1. Switzerland Global Enterprise (S-GE)**
- 2. Making Sense of Mercosur**
- 3. Mercosur & Switzerland**
- 4. Criteria for a Successful Market Evaluation in Mercosur**
- 5. Business Opportunities and Challenges for Swiss Exporters in the Mercosur Countries**
- 6. Recommendations for Swiss SMEs**

1. SWITZERLAND GLOBAL ENTERPRISE



S-GE – Your Partner for Internationalization



Official Export & Investment Promotion Agency of Switzerland

- Mandated by Swiss Confederation (State Secretariat for Economic Affairs)



Export Promotion



Investment Promotion



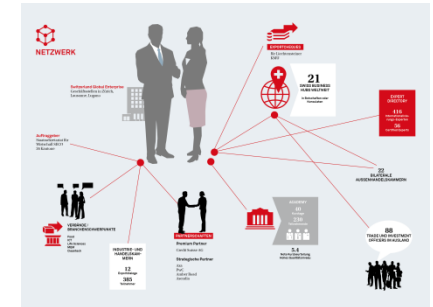
Private Organization

- Established 1927
- HQ in Zürich, offices in Lausanne, Lugano
- Publicly financed and non-profit org
- 2'290 Members
- Ca 80 employees Switzerland, 80 abroad



Focus on SME

- Each year
- 5'000 supported SME
 - 2500 Individual Consulting Meetings
 - 700 Paid Mandates



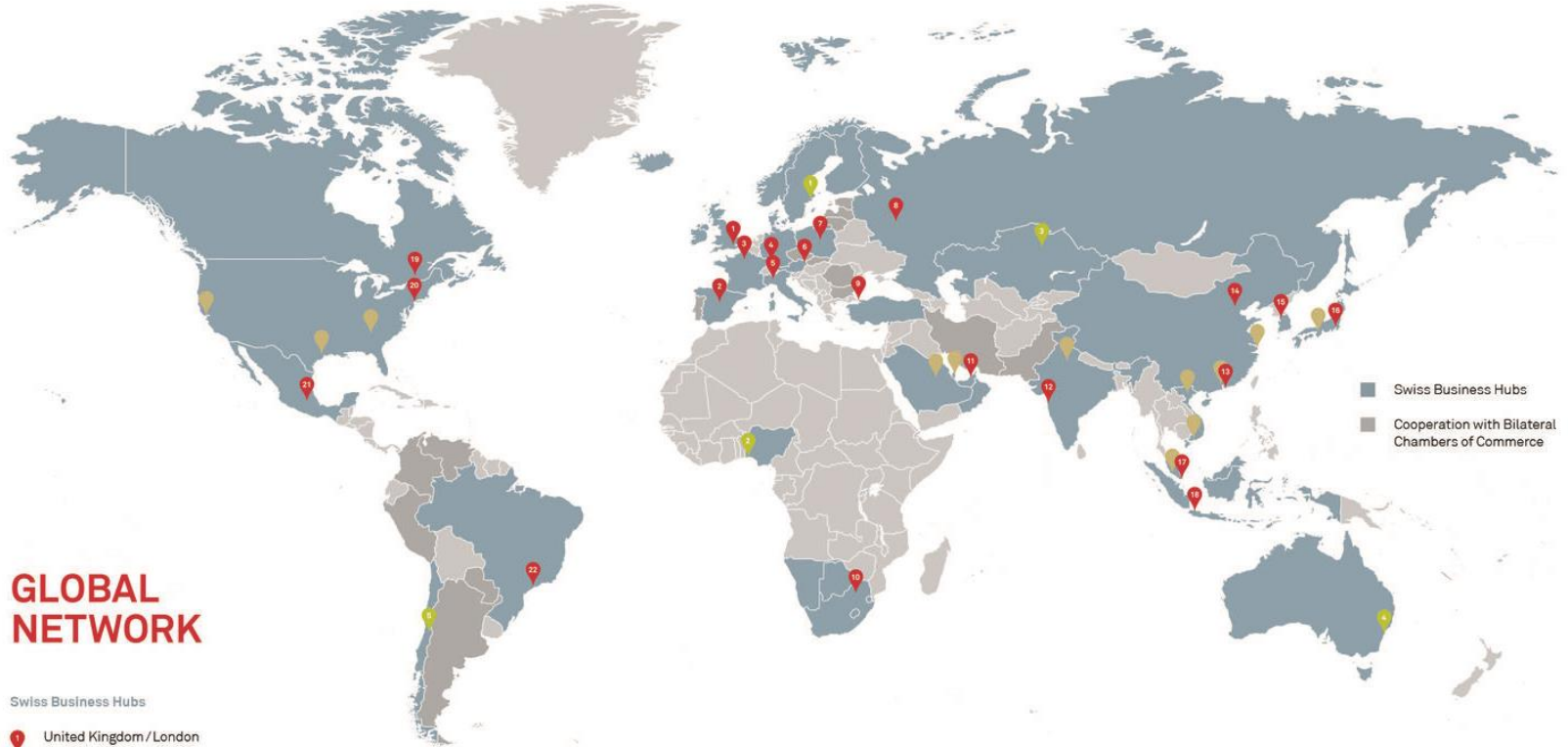
National & International Network

- 18 Cantonal Chambers
- Federal Organizations
- Industrial Associations
- 22 Swiss Business Hubs & 5 Trade Points
- Swiss Embassies
- Global Network of Industry Experts

S-GE – Global Network

Our Export Promotion Service Pillars

- 1) Market Intelligence
- 2) Business Partner Search
- 3) Local Support



GLOBAL NETWORK

Swiss Business Hubs

- | | | |
|-------------------------------------|---|--|
| 1 United Kingdom / London (Ireland) | 18 Southern Africa / Pretoria (Botswana, Lesotho, Mauritius, Namibia, South Africa, Swaziland) | 14 China / Beijing |
| 2 Spain / Madrid | 11 Middle East / Dubai (Countries from the Gulf Cooperation Council (GCC): Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, UAE) | 15 South Korea / Seoul |
| 3 France / Paris | 12 India / Mumbai | 16 Japan / Tokyo |
| 4 Germany / Stuttgart | 13 Hong Kong | 17 ASEAN / Singapore (Malaysia, Vietnam) |
| 5 Italy / Milan | 19 USA / New York City | 18 Indonesia / Jakarta |
| 6 Austria / Vienna | | 19 Canada / Montreal |
| 7 Poland / Warsaw | | 20 Mexico / Mexico City |
| 8 Russia / Moscow | | 21 Brazil / São Paulo |
| 9 Turkey / Istanbul | | |

Additional Offices

- 10 Riyadh
- 11 Doha
- 12 New Delhi
- 13 Shanghai
- 14 Guangzhou
- 15 Osaka

Hanoi

- 16 Ho Chi Minh City
- 17 Kuala Lumpur
- 18 San Francisco
- 19 Atlanta
- 20 Houston

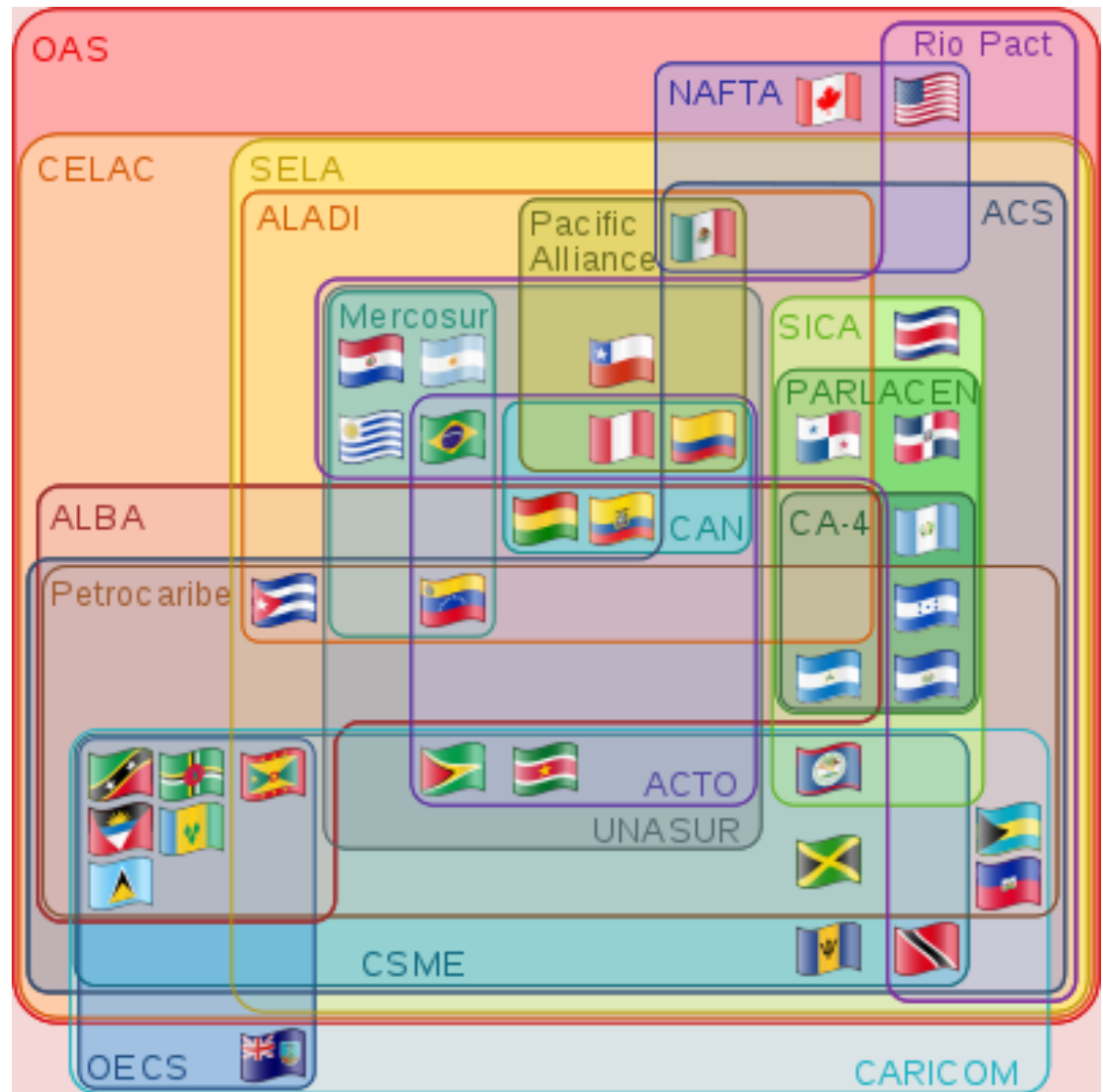
Trade Points

- 1 Nordics / Stockholm (Denmark, Finland, Iceland, Norway, Sweden)
- 2 Nigeria / Lagos
- 3 Kazakhstan / Astana
- 4 Australia / Sydney
- 5 Chile / Santiago

2. MAKING SENSE OF MERCOSUR

Regional Integration Efforts in Latin America

Overview of the various multinational organizations in Latin America



Two Large but Different Economic Blocks: Mercosur vs. Pacific Alliance

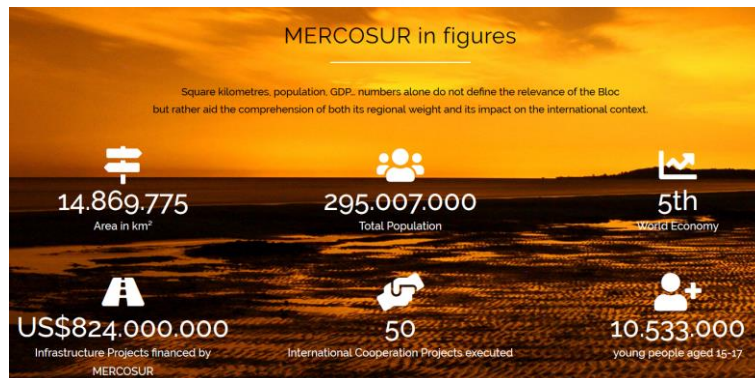


Mercosur – Facts & Figures



Source: Mercosur

Council on Foreign Relations



- **Mercosur** = South American trade bloc established by Treaty of Asunción in 1991
- Full members: **ARG, BRA, PAR, URU**
- Associate members: no Customs Union, no voting rights, but preferential trade access
- **“Open regionalism”**: opening up to world trade more advantageous if combined with deeper regional market (economies of scale)
- Purpose to promote **“South-South” trade**
- Ambition: EU-like common market (free movement goods, services, capital, people)
- However, it currently confines itself to a **Customs Union** (free intra-zone trade)
- Resolution signed in 2000 commits each member to **negotiate trade pacts as a bloc**
- Headquarters: Montevideo (URU), presidency rotating every 6m alphabetically

Source: <https://www.mercosur.int/en/>

Mercosur – Cement Democracy & Dominance BRA-ARG



Source: Mercosur

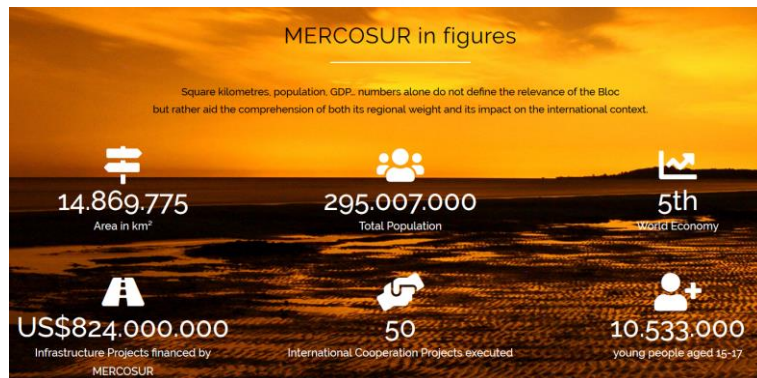
Council on Foreign Relations

Democracy

- One of Mercosur's early aims was to cement the region's return to democracy
- All of its founding members had emerged from dictatorships in the 1980s.
- 1998 group signed Ushuaia Protocol on Democratic Commitment ("rupture in democratic order" would be cause for a member's suspension) → see Venezuela

Dominance of Brazil & Argentina

- Mercosur was created in large part to cement a rapprochement between Argentina and Brazil, whose relationship had suffered early on from a competition for regional dominance and mutual distrust
- Together they account for about 95% of bloc's GDP and population



Source: <https://www.mercosur.int/en/>

Mercosur – Political & Economic Context in Member Countries since 1990s

Early Success



Slowdown end 90s



Left-wing Wave



Commodity Boom



End of Commodity Boom



Lava-Jato Scandal

Intra-Mercosur trade from USD 4bn (1990) to USD 40bn (2000).

BRA Currency devaluation (1999) and ARG financial crisis (2001) leads to integration slow-down, trade disputes, tensions

Difficult economic situation brings leftist governments (between radical Marxism and social democracy) in 18/20 Latam countries

Commodity price boom benefits left-wing governments

- Numerous subsidies and state social programs
- Lift millions out of poverty to middle class
- Increase purchasing power of people (mostly credit-financed)

→ Business model: export raw material, import everything else

→ Little to no investment in productivity, innovation, industry diversification, infrastructure, structural reforms

End of raw material boom leads to crisis in most of Latam, but instead of stopping social programs and public spending, they print money → inflation, currency devaluation, unemployment

President Dilma Rousseff impeached & Lula imprisoned
→ Brazilians lose trust in PT → crisis of political system

Mercosur – Criticism

Argentina and Brazil wanted Mercosur simply as a trade shield from global competition

Left-wing governments in Brazil, Argentina and Uruguay have turned Mercosur into a political club “flirting with Cuban-style socialism” → protection & subsidies

Mercosur became a “moribund trade block” (Economist, 2016)

Only signed trade agreements outside Latam with Israel, Egypt and the Palestinian Authority

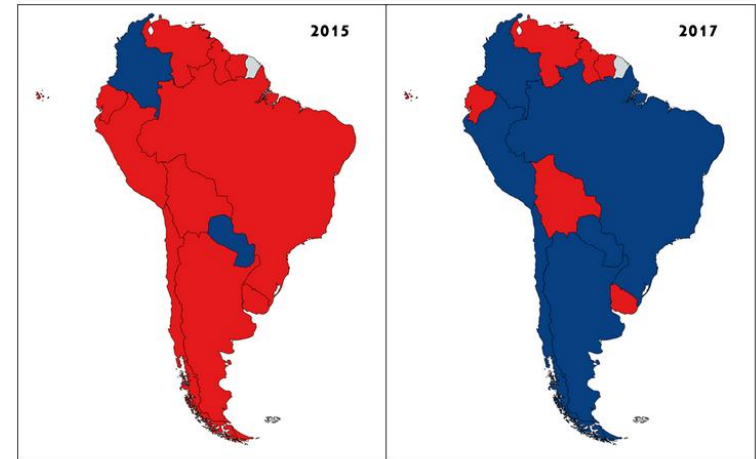
Failure to deepen economic integration in Mercosur itself (Intra-Mercosur trade only 14% of its members’ total trade in 2014)

Mercosur claims to be a Customs Union BUT in practice it is not even a proper free-trade area
→ ARG imposed quotas and licenses on imports from BRA
→ URU truckers face harassment in BRA

- Mercosur thus excluded itself from regional value chains for manufactured products (cf. car manufacturing US-MEX), as well as from new trans-regional trade and investment agreements, such as the Trans-Pacific Partnership (TPP).

Mercosur – Recent Political Shifts as Paradigm Shift for Mercosur?

- Today clear tendency in the whole region to turn to the right
- Tiredness of ARG voters of Kirchners (ARG) and Lula-Rousseff's PT (BRA)
- Lava-Jato Scandal → outcry for fight against corruption in politics & economy
- Awareness that future economic growth will have to come from structural reforms, productivity, investment and efficiency



Red: left-wing countries. Blue: right-wing countries.



BRAZIL
Jair Bolsonaro

(from 01.01.19)

→ won against left-wing Haddad and succeeds Temer (center-right) after 15y leftist Lula-Rousseff



ARGENTINA
Mauricio Macri

(since 10.12.15)

→ won against left-wing Scioli
→ Followed 12y leftist Néstor & Cristina Kirchner



URUGUAY
Tabaré Vázquez

(since 01.03.15)

→ Only leftist government in Mercosur but distanced itself strongly from other left governments in Latam



PARAGUAY
Mario Abdo Benítez

(since 15.08.18)

→ Succeeded former president Horacio Cartés of same business-friendly Colorado party

Mercosur – «Latin America’s Protectionists Want Trump-Style Trade Deals»

Future economy minister says Mercosur not a priority for Bolsonaro's Brazil



Mercosur is not a priority, and Argentina is not a priority for the new government of Brazil, the priority is to trade with all the world. The strong statement came from Paulo Guedes, signaled as the next Finance minister of president elect Jair Bolsonaro's cabinet and a crucial player in that team since the newly elected leader has admitted a limited knowledge of economics.

- Bolsonaro wants to reform Mercosur: more agile and allow members to negotiate bilateral free trade agreements (along Trump trade policy)
 - "Mercosur isn't a gilded bird cage, but rather a platform for global insertion. Maybe Mercosur needs to be updated to reflect the world of today."
(Uruguay's Deputy Foreign Minister Ariel Bergamino)
 - "In Argentina, it hasn't worked. During the previous government there was a process of disengagement with global trade and we're trying to reverse that."
(Argentina's Central Bank President Guido Sandleris)
-
- ▶ Brazil, Argentina see Mercosur nations doing individual pacts
 - ▶ Growing support across trade bloc for pro-trade reforms
-

Mercosur – Uncertainties in Member Countries & for FTAs with EU/EFTA

Uncertainties and Risks at Home

Now, Bolsonaro and Macri are challenged to show voters that market-friendly policies can improve lives by bringing more investment, cheaper imports and new markets for their exports. At the same time, they have constituencies largely supportive of Mercosur's protective tariffs.

- Dismantling tariffs off Brazil and Argentina would likely put **jobs at risk**.
- In Argentina, free trade is often associated with unemployment after former President Carlos Menem attempted to open the economy in the 1990s. Macri can't afford those optics next year as he seeks re-election against a challenging backdrop.
- Brazilians face near-record high unemployment and industries have powerful protectionist lobbies in Congress.
- Experts warn that the road to free trade is associated with lots of political pain.

→ **How much political capital are Bolsonaro and Macri willing to spend?**

Uncertainties & Risks regarding EU/EFTA FTA negotiations

- If Mercosur were to be reformed, it could raise questions about the future of a trade deal that has been in the works for since 1999 between Mercosur and the EU, but also with EFTA (negotiations launched in January 2017)
- See also nationalist wave in EU as well as upcoming EU Parliamentary Elections in 2019 + CH Parliamentary Elections in 2019 & negotiations with EU
- Largest blocker for FTAs: fear of EU / EFTA of farmers regarding Mercosur, who is world's most competitive producer of grains, soybeans, meat

Mercosur – To sum up: Key Challenges

“While they were indulging ideological dreams, Mercosur’s governments were also missing the trade boat.”

(The Economist, 12.05.2016)



- **Redesign of trade blocs and integration processes.** The Mercosur, like Nafta with USMCA or EU with Brexit, is facing realities very different from the days of its creation, and is now being pressured to make changes and readapt.
- **Freedom to sign individual agreements.** The Brazil President-elect Jair Bolsonaro has already signaled his interest in making bilateral trade deals without depending on the consensus of other Mercosur members. Similarly, Uruguay has expressed the same wish in 2016 when negotiating an FTA with China without the approval of its neighbors. Mercosur will have to re-discuss its modus-operandi to answer this demand.
- **Ongoing FTA discussions.** The Mercosur Bloc is currently in negotiations with the EU, EFTA, Canada, South Korea, Singapore, among others, for the signature of Free Trade Agreements. The result of such negotiations will depend on the members’ willingness to focus on Mercosur negotiations.

3. MERCOSUR & SWITZERLAND



Share of Export and FDI from Switzerland to Latin America in 2017

2.2 %

- Bilateral Trade with LAC: -11% in 2017
 - Exports to Latam: CHF 6.5 billion
 - Imports from Latam: CHF 9.2 billion
- Trade deficit due to gold (60.5% of total imports)

Share of Swiss FDI to Latin America in 2017

2.2 %

- CHF 26.8 billion
- including offshore financial centers: 9.4%

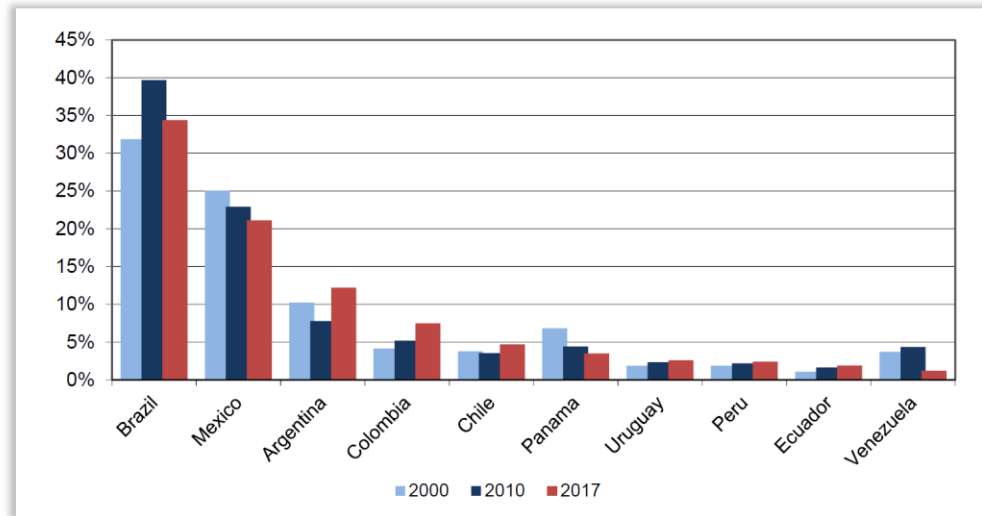


DNA of Swiss Exports to Latam

Approx. 2/3 of Swiss Exports go to 3 largest Latam Markets
BRA, MEX and ARG

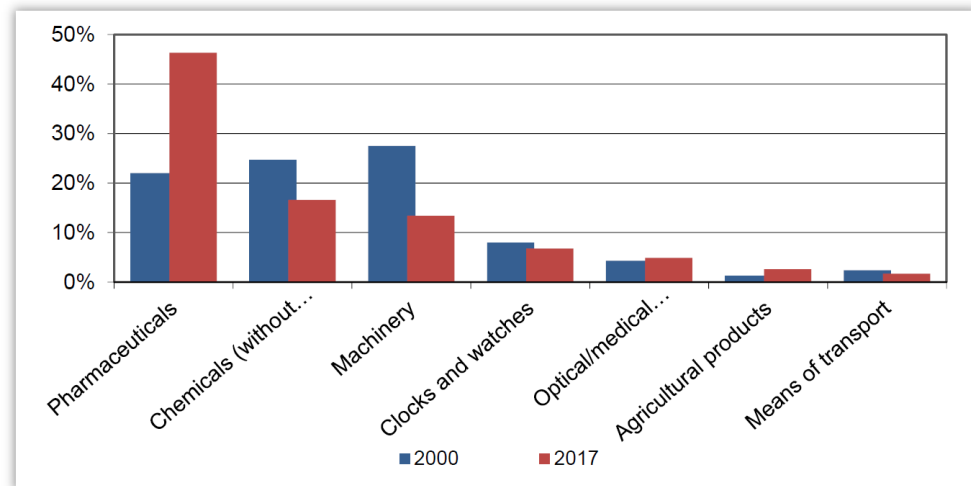
Approx. 2/3 of Swiss Exports to Latin America are pharma and chemical products

Figure A.1. Switzerland - Latin America: Share of Goods Exports, Main Partners 2000 - 2017 (% of total Swiss exports to Latin America)



Source: Swiss Federal Customs Administration, Bern

Figure A.3. Switzerland - Latin America: Goods Exports, Main Product Groups 2000 - 2017 (% of total Swiss exports to Latin America)



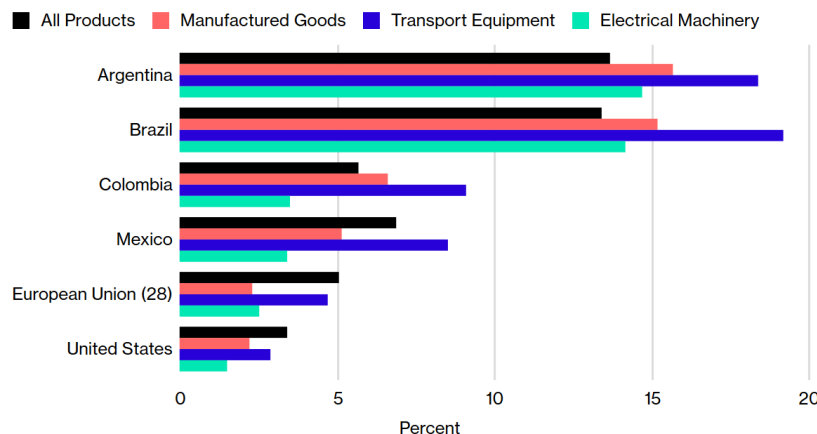
Source: Swiss Federal Customs Administration, Bern.

Mercosur – What Does it Mean for Swiss Exporters?

- Mercosur Customs Union agreed to eliminate customs duties and implement a **common external tariff (CET)** of max. 35% on certain imports from outside the bloc
- On average import tariffs are around 14-16%, but total cost of imported good can be as high as **60-80% above “ex works” price**
- When exporting to Mercosur countries, Swiss exporters need to check which **NCM Code** (Nomenclatura Comun del Mercosur) corresponds to their 8-digit HS Codes
- Decisive factor: **origin of the good** -> 60% of local content in ARG, BRA and URU and 40% in PAR to be considered “Made in Mercosur” and be able to be exported to other Mercosur member without paying import taxes

Pricey Imports

Brazil and Argentina impose very high tariffs compared to local and global peers



Source: WTO

Nice to know:

Residents of the Mercosur bloc are authorized to live and work anywhere within it

4. CRITERIA FOR A SUCCESSFUL MARKET EVALUATION IN MERCOSUR



Mercosur? – Possible Market Evaluation Criteria

1. Market Size
2. Political and Economic Stability
3. Economic Growth
4. Free Trade Agreement
5. Ease of Doing Business
6. Proximity to USA
7. Degree of Industrialization
8. Regional or Functional Hub
9. Industry & Product (b2b or b2c)
10. Existing Clients or Competitors
11. Price level (Landed Cost)
12. Available Resources (HR & \$)
13. Time to market (BRA ca. 3-5 years)
14. Regulatory Framework
15. Personal Affinity (Family, Language)



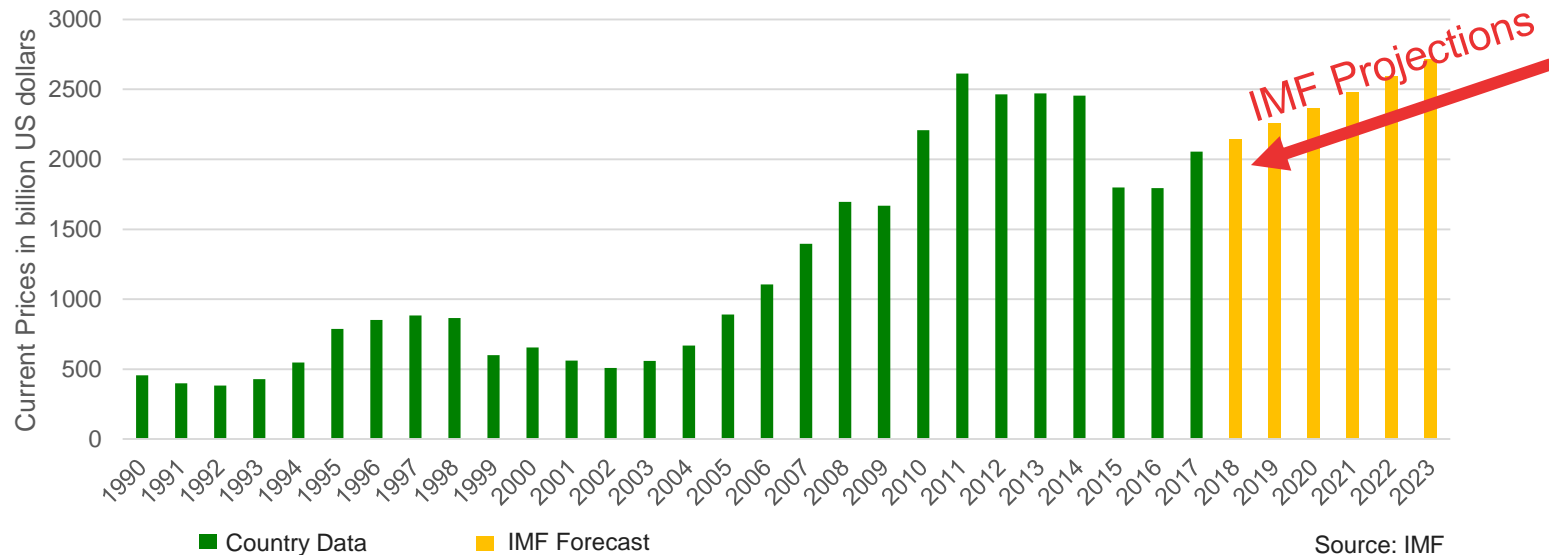
5. BUSINESS OPPORTUNITIES & CHALLENGES FOR SWISS EXPORTERS IN MERCOSUR COUNTRIES



Current Economic Situation in Brazil & Bolsonaro's Economic Agenda

- Economy slowly recovering from the crisis (growth projection of 1.4% for 2018)

Brazilian gross domestic product, current prices (billion US Dollars)



- **Pension reform.** Pension spending is biggest deficit driver (>8% of Brazil's GDP). With population aging fast, that could more than double in coming decades.
- **Privatization.** Bolsonaro's Economy Minister, Paulo Guedes (a University of Chicago-educated economist) advocates selling off some of Brazil's state firms.
- **Tax cuts.** Guedes believes that cutting taxes and simplifying the tax code will spark private investment and create jobs.
- **Trade deals.** Like US President Trump, Guedes prefers bilateral trade deals.

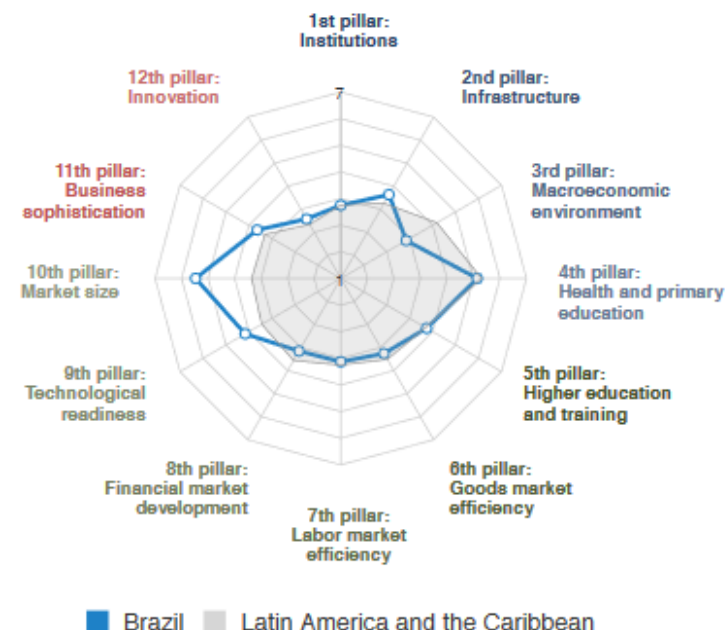
Key indicators, 2016

Source: International Monetary Fund; World Economic Outlook Database (April 2017)

Population millions	206.1	GDP per capita US\$	8,726.9
GDP US\$ billions	1,798.6	GDP (PPP) % world GDP	2.62

Performance overview

Index Component	Rank/137	Score (1-7)	Trend	Distance from beat	Edition	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Global Competitiveness Index	80	4.1			Rank	48 / 144	56 / 148	57 / 144	75 / 140	81 / 138	80 / 137
Subindex A: Basic requirements	104	4.1			Score	4.4	4.3	4.3	4.1	4.1	4.1
1st pillar: Institutions	109	3.4									
2nd pillar: Infrastructure	73	4.1									
3rd pillar: Macroeconomic environment	124	3.4									
4th pillar: Health and primary education	96	5.4									
Subindex B: Efficiency enhancers	60	4.3									
5th pillar: Higher education and training	79	4.2									
6th pillar: Goods market efficiency	122	3.8									
7th pillar: Labor market efficiency	114	3.7									
8th pillar: Financial market development	92	3.7									
9th pillar: Technological readiness	55	4.6									
10th pillar: Market size	10	5.7									
Subindex C: Innovation and sophistication factors	65	3.7									
11th pillar: Business sophistication	56	4.1									
12th pillar: Innovation	85	3.2									



BRAZIL

Taxes

(II) Import tax

(IPI) Tax on Manufactured Products

(PIS/Pasep) Social Contributions

(Cofins) Social Contributions

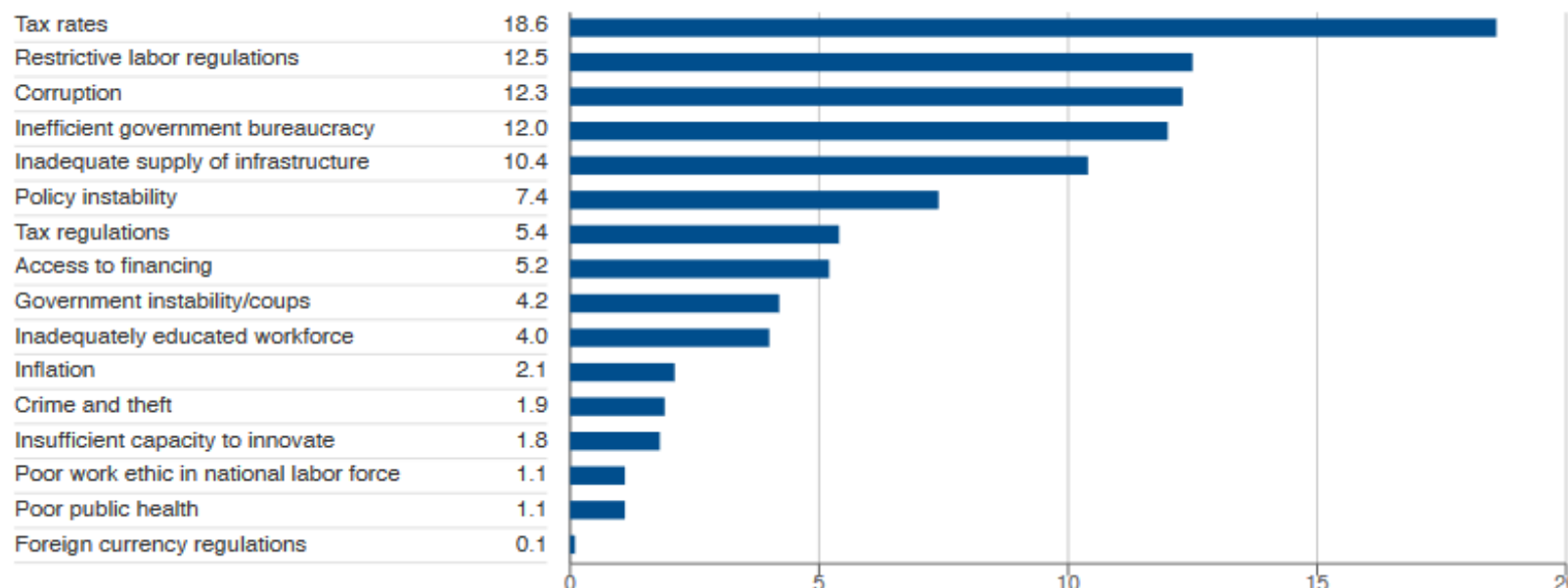
(ICMS) Value Added Tax

(AFRMM) Freight Surcharge for Renovation of Merchant Marine - only for maritime transportation



Most problematic factors for doing business

Source: World Economic Forum, Executive Opinion Survey 2017



BRAZIL – Agribusiness & Food Processing Sector



World's **1st** producer and exporter of **orange juice**



World's **1st** producer of **beef**



World's **1st** producer and exporter of **sugar**



World's **1st** producer of **poultry**



World's **2nd** exporter of **instant coffee**



World's **2nd** producer of **candy and sweets**

Up to 2050, Brazil is expected to supply 40% of the global demand for food products (FAO)

Agribusiness & Food Processing
24% PIB
46% Brazilian Export

BRAZIL – Healthcare Sector



PHARMA

- 8th World's largest pharmaceutical market
- USD 25.6 bn in Retail Drug Sales (ex-factory prices) in 2016
- 6.5% CAGR Pharmaceutical Production Value 2016-2021
- The sector imports USD 6,389mn, a volume of 36,778 tons



MEDTECH

- Total Medical Devices market in Brazil will reach USD 4.7 bn in 2018
- 6'712 Hospitals in the country
- Health Expenditure is 8.7% of Brazil's GDP
- 367,670 medical doctors
- 2017-2022 CAGR of 7.7% in local currency



DENTAL

- 290 thousand dental surgeons in Brazil (85 thousand in SP State)
- 220 Faculties of Dentistry
- Sales of dental products will reach USD 421.7 mn in 2018
- Switzerland is the second leading suppliers in BRA imports, behind only Germany

BRAZIL – Infrastructure Sector

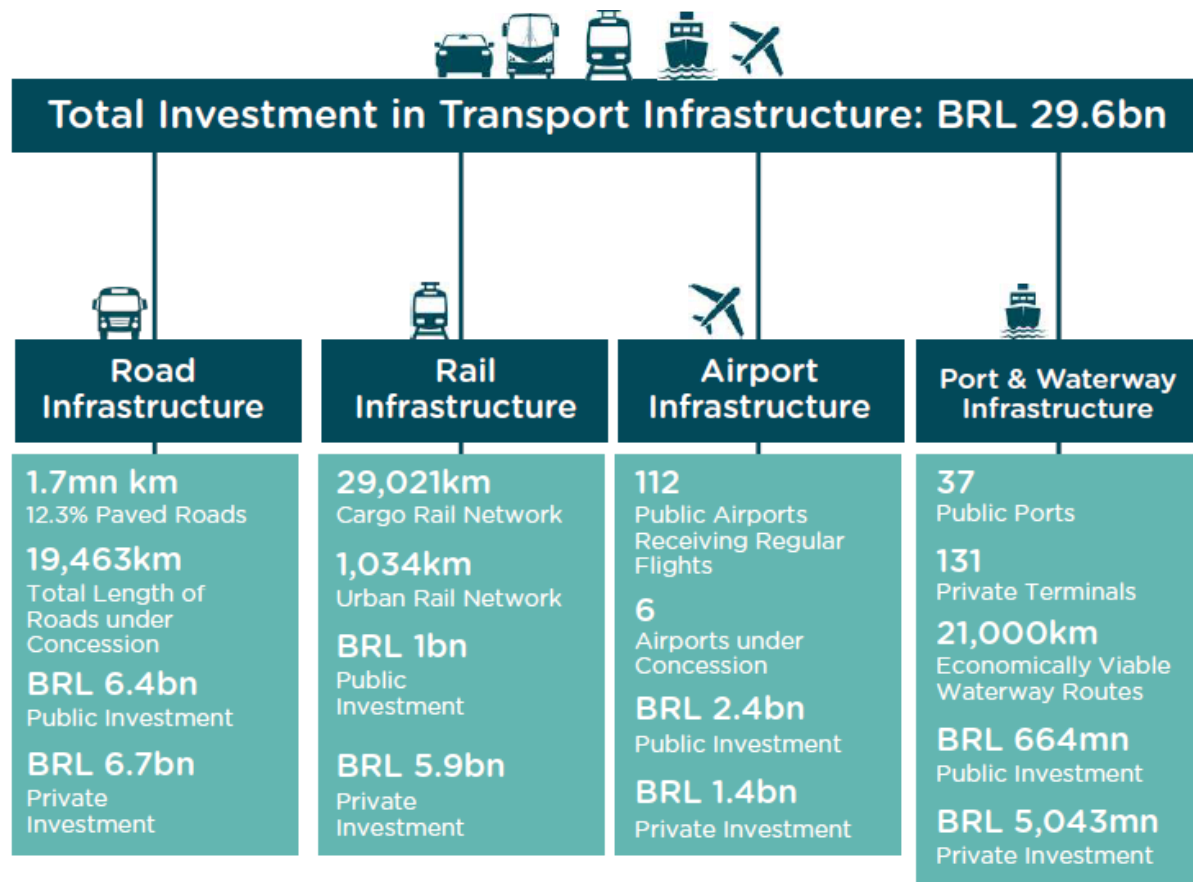
OPPORTUNITIES

Programme “Time to Move Forward”:

From end of 2017 – Q1 2019, the government aims to auction:

- 13 airports in various regions,
- 3 railways with a total length of 3,997km
- 10 port terminals
- 8 highways

Source:
<http://www.avancarparcerias.gov.br/>



Note: Data for 2016.

Source: ANAC, ANTT, ANTAQ, ABCR, Company Data, DNIT, MTPA, EMIS Company Data

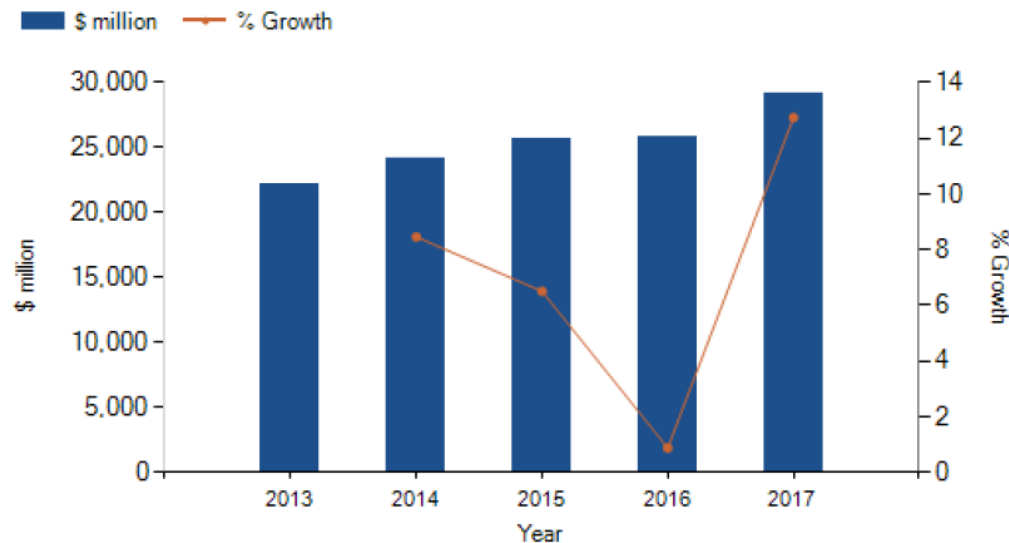
BRAZIL INFRASTRUCTURE SECTOR 2017/2021
An EMIS Insights Industry Report

BRAZIL – Defence Sector

Growing relevance of the sector with the new government

- As a former military himself, President-elect Jair Bolsonaro has signaled the strengthening of Brazil's defense and public security sectors during his term. In his government plan for the elections, Bolsonaro indicated that he **will invest heavily in equipment, technology and investigative intelligence**, in order to improve Brazil's Armed Forces operational conditions.
- Two ministers will be the key figures for this industry in Bolsonaro's government: the so-called super minister **Sérgio Moro** (responsible for the Ministry of Justice and Public Security) and general **Azevedo e Silva** (responsible for the Ministry of Defense). It is important to note that the Ministry of Defence is the only legitimate buyer for military hardware in Brazil.

Figure 1: Brazil defense spending market value: \$ million, 2013–17



The Brazilian defense spending grew by 12.7% in 2017 to reach a value of \$29,164.2 million.

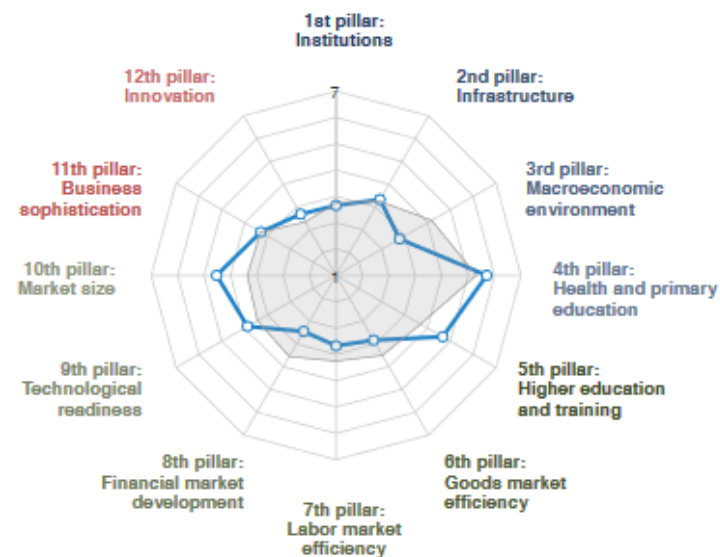
Key indicators, 2016

Source: International Monetary Fund; World Economic Outlook Database (April 2017)

Population millions	43.6	GDP per capita US\$	12,502.8
GDP US\$ billions	545.1	GDP (PPP) % world GDP	0.73

Performance overview

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Global Competitiveness Index	92	4.0			Rank	94 / 144	104 / 148	104 / 144	106 / 140	104 / 138	92 / 137
Subindex A: Basic requirements	103	4.1			Score	3.9	3.8	3.8	3.8	3.8	4.0
1st pillar: Institutions	113	3.3									
2nd pillar: Infrastructure	81	3.9									
3rd pillar: Macroeconomic environment	125	3.4									
4th pillar: Health and primary education	64	5.9									
Subindex B: Efficiency enhancers	81	4.0									
5th pillar: Higher education and training	38	5.0									
6th pillar: Goods market efficiency	133	3.4									
7th pillar: Labor market efficiency	132	3.3									
8th pillar: Financial market development	121	3.1									
9th pillar: Technological readiness	66	4.3									
10th pillar: Market size	32	4.9									
Subindex C: Innovation and sophistication factors	75	3.6									
11th pillar: Business sophistication	78	3.8									
12th pillar: Innovation	72	3.3									



ARGENTINA



AMPLE INVESTMENT OPPORTUNITIES

USD 250 Bn in opportunities across sectors



LARGE ECONOMY

USD 586 Bn GDP
~43 Mn population, 300 Mn population in Mercosur
8th largest country in the world



VAST NATURAL RESOURCES

Outstanding wind & solar capacity factors
2nd largest shale gas reserves in the world



HIGHLY PRODUCTIVE AGRICULTURE

1st exporter of soybean oil,
2nd of soymeal
2nd producer of lemons and limes
3rd exporter of corn

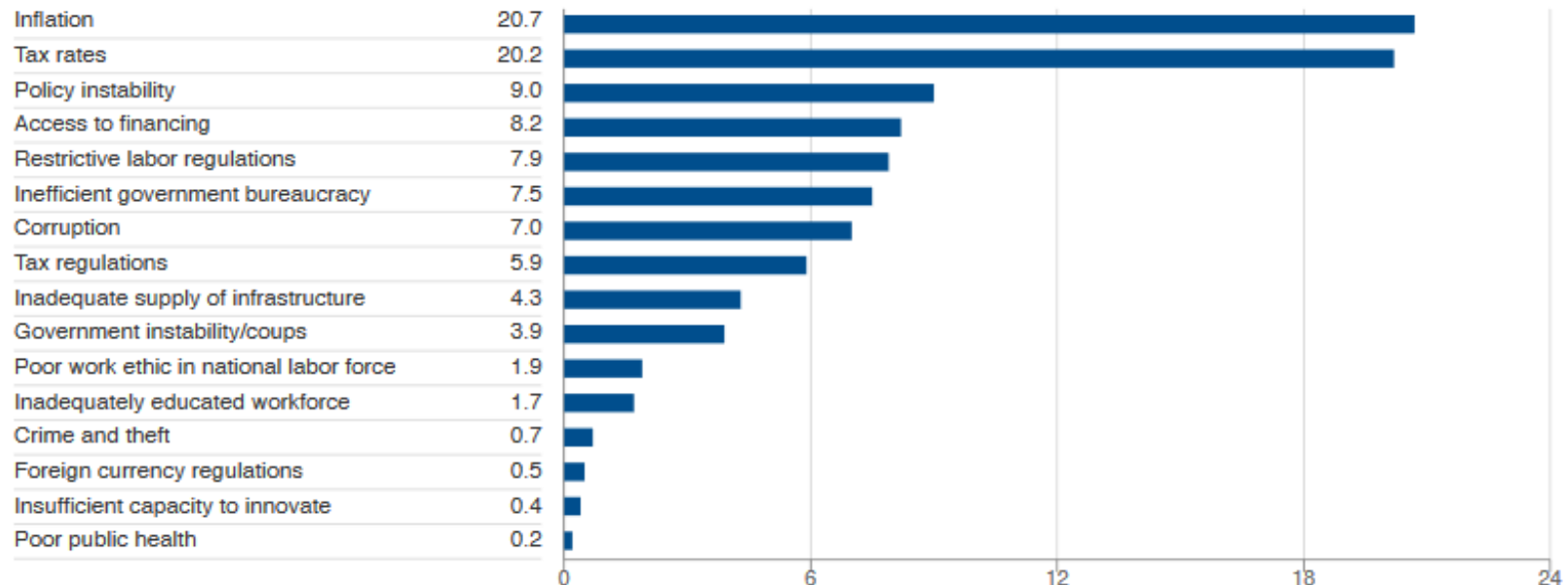


HIGH QUALITY HUMAN CAPITAL

#1 UN Human Development Index score in Latin America
~110,000 higher education graduates per year
#1 english proficiency in Latin America

Most problematic factors for doing business

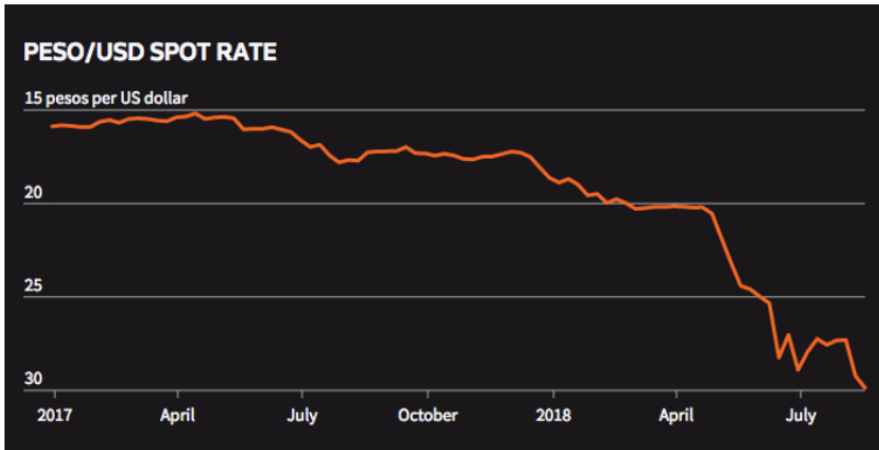
Source: World Economic Forum, Executive Opinion Survey 2017



ARGENTINA

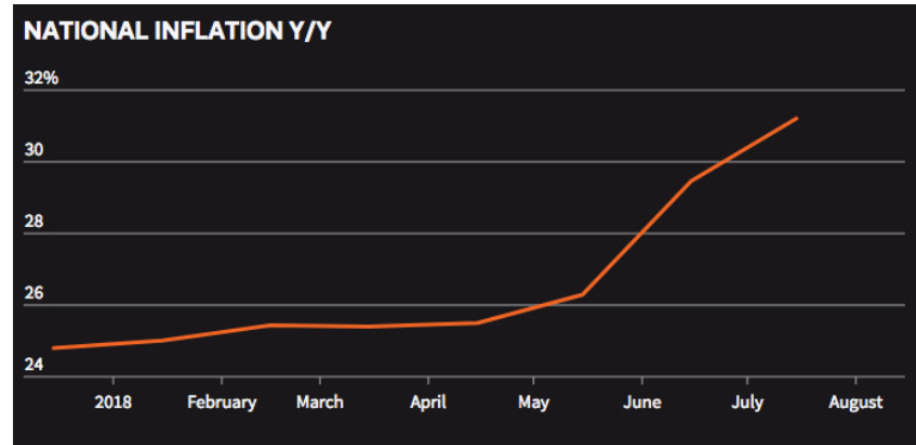
PESO/USD SPOT RATE

Economists had long argued that Argentina's peso currency was overvalued, and the government acknowledged that it would depreciate gradually over the years. But no one expected the speed with which the peso plunged against the dollar in April, due to investor concerns about the government's ability to control inflation and interest rate hikes by the U.S. Federal Reserve, which strengthened the dollar worldwide. The depreciation made Argentina's dollar debts more expensive for the government, prompting it to turn to the International Monetary Fund (IMF) for a \$50 billion loan.



NATIONAL INFLATION Y/Y

Argentina's high inflation rate is one of the factors that make it more vulnerable than other emerging markets to moves by global investors away from risky assets. For years, populist governments printed money to finance wide budget deficits, causing consumer prices to spike. Macri's government has reduced that practice, but his hikes to utility prices as part of an effort to reduce subsidies and close the fiscal deficit have kept inflation high. The rapid drop in the exchange rate has prompted inflation to accelerate in recent months.

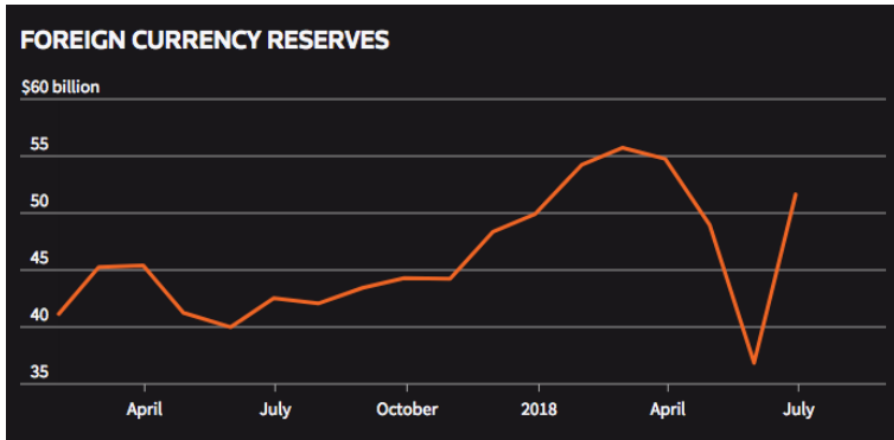


ARGENTINA



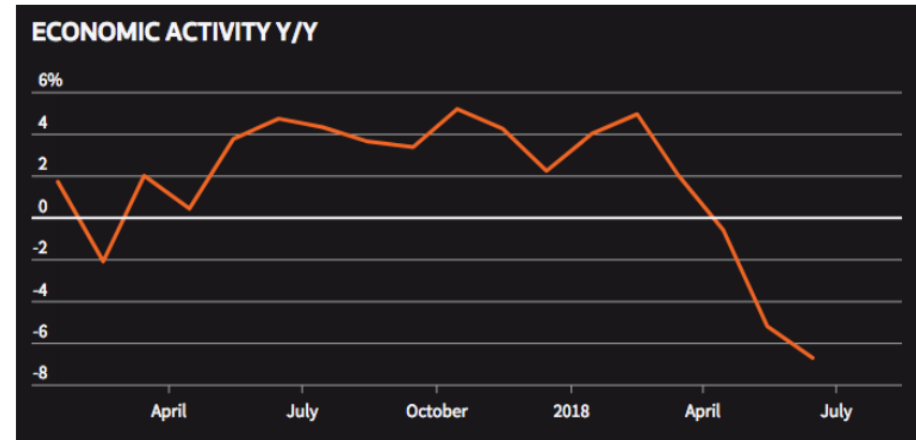
FOREIGN CURRENCY RESERVES

The central bank responded to the rapid depreciation and spike in inflation by hiking interest rates to 45 percent and selling billions of dollars in foreign currency reserves to protect the peso. That resulted in a sharp decline in reserves, which had grown gradually since Macri took office in December 2015. While the IMF loan gave reserves a boost, continued pressure on the peso has begun to prompt renewed central bank interventions in recent weeks.



ECONOMIC ACTIVITY Y/Y

The spike in inflation and rise in interest rates have weighed on the economy, but in addition to the financial storm, Argentina has been hit by some bad luck beyond Macri's control. The worst drought in decades slashed the harvests of soybeans and corn, the backbone of Argentina's economy. The economy has now contracted for three straight months, with the agricultural sector leading the way to what economists are certain will be a recession. The economy fell by 6.7 percent in June, the worst monthly fall since the global financial crisis of 2009.



ARGENTINA

Agroindustry

Since the strategic goal set by the National State is to supply food for more than 600 million people by 2020 (almost fifteen times Argentina's current population), it is essential to encourage investment in undertakings that add value in origin. For this, specific measures are being carried out to improve the sector's profitability and productivity:

- Reduction of tax burden
- Modernization of transportation and logistics infrastructure
- New agreements to facilitate access to international markets
- Improvement of financial conditions for all actors in the value chain
- Promotion of research in public and private institutions

Power Generation & Renewables

65% of Argentina's energy matrix depends on fossil fuels and it has become a State policy to grant sustainability to the system. The target is to increase the contribution of renewable energy to 20% of the Argentine energy matrix by 2025, with the current mere 1% as a starting point. The expected increase is of 10,000 MW in ten years, a magnitude that represents a third of the current installed power.

Oil & Gas

- World's 2nd largest shale gas reserve, with 802 Tcf of technically recoverable resources;
- World's 4th largest shale oil reserve, with 27.0 billion recoverable barrels;
- Proven unconventional resources equivalent to 11 times more than the current oil reserves and 70 times more than gas reserves;
- 25% recovery rate of unconventional gas reserves (the world's highest level);
- The Vaca Muerta reservoir contains 40% of the country's shale gas and features comparative advantages: accessibility, operational capacity, water availability, infrastructure and the technical expertise of human capital.

YPF (Yacimientos Petrolíferos Fiscales), the country's flagship company, concentrates 43% of the domestic market's oil and gas production and 58% of the gasoline segment. The majority shareholder is the Argentine State (which owns 51%), and the company employs more than 72,000 people directly and indirectly. Leading in the exploration and exploitation of unconventional resources, YPF possesses the world's first commercial shale field, outside North America.

SECTORS

Sectors - Why Argentina

Agroindustry

Real Estate

Power Generation & Renewable Energies

Financial Services

Manufacturing Industry

Mining

Oil & Gas

Pharmaceutical and Biotechnology Industry

Public Works and Infrastructure

Telecommunications

Tourism

Transport and Logistic

ARGENTINA

Manufacturing Industry / Public Works & Infrastructure

- Argentina is the region's second exporter of manufactured products, after Brazil.
- Industry contributes directly and indirectly to approximately 30% of GDP.
- The food industry represents 20% of the total manufacturing output. It is followed in importance by the chemical (17%), metallurgical (15%), automotive (11%) and base metals (8%) industries.
- Nearly 75% of industrial production is destined to the domestic market.
- It is a labour-intensive sector: it employs a fifth of the country's formal workforce.
- Over the last twenty years, the sector trebled the volume of exports: industry accounts for one of every three units of foreign currency entering the country through trade.
- It possesses a vast diversification of products stemming from Argentina's abundant natural resources.

We endeavour to consolidate a modern and diversified manufacturing sector, with intelligent international integration through:

- An environment of higher predictability and competitiveness that enables to strengthen the position of national production in world trade. This will be spurred by the development of strategic sectors, such as energy, infrastructure and transportation, so as to reduce costs and boost the entire economy's productivity.
- The integration of competitive segments in the global value chains through the National Export Plan, facilitating trade, participating in international fairs and advancing in trade agreements with traditional partners as well as new markets.

SECTORS

Sectors - Why Argentina

Agroindustry

Real Estate

Power Generation &
Renewable Energies

Financial Services

Manufacturing Industry

Mining

Oil & Gas

Pharmaceutical and
Biotechnology Industry

Public Works and
Infrastructure

Telecommunications

Tourism

Transport and Logistic

ARGENTINA

Financial Services

Financial services are vital vehicles to stimulate investments: the Argentine State is putting special emphasis on restoring the normal functioning of the institutions that actively participate in the sector, so as to regain trust and credibility and thus access new productive financing at gradually more convenient costs.

Standing out amongst the most important measures are:

- Successful resolution of the trial for the suspension of payments, ending with years of legal conflicts that blocked the possibilities of obtaining financing from abroad in spite of boasting record-low debt burden, both historically and regionally. The issuance of debt enabled the Argentine State to close a chapter that was hindering its economic potential.
- Removal of the foreign exchange restrictions that limited the private sector's free access to foreign currency, having created a new environment of financial freedom.
- Exchange rate correction, having eliminated the spread between the official and parallel exchange rates.
- Withdrawal of the restrictions on overseas dividend transfers, which sought to prevent capital outflows from the country, but that also deterred their inflow.
- Elimination of mandatory deposits for foreign investments and reduction of minimum waiting period for the funds transferred into the country, generating better financial conditions for foreign investment.

Financial services will play a crucial role in the forthcoming growth cycle and this reflects on the rekindled interest the international financial community shows in the country. Once again, the world trusts in Argentina and in the opportunity represented by the new cycle of growth.

SECTORS

Sectors - Why Argentina

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Renewable Energies

Financial Services

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Biotechnology Industry

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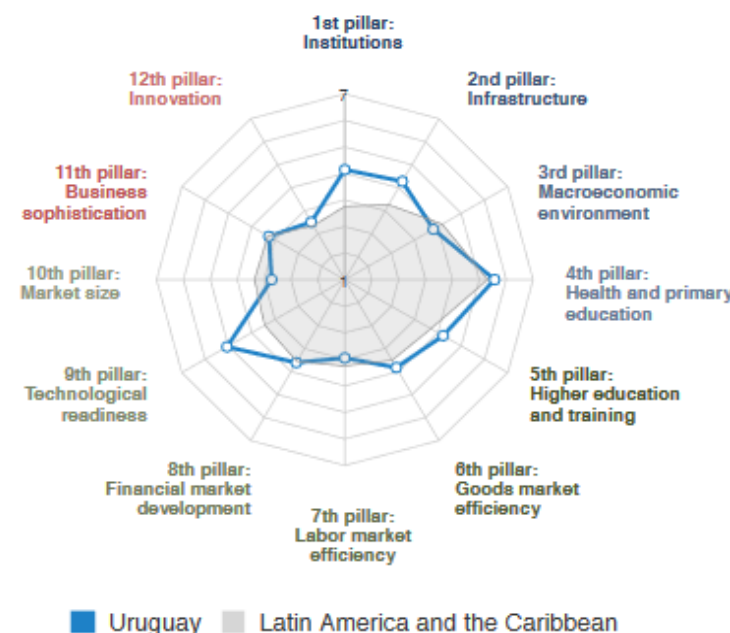
Key indicators, 2016

Source: International Monetary Fund; World Economic Outlook Database (April 2017)

Population millions	3.5	GDP per capita US\$	15,679.2
GDP US\$ billions	54.6	GDP (PPP) % world GDP	0.06

Performance overview

Index Component	Rank/137	Score (1-7)	Trend	Distance from best	Edition	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Global Competitiveness Index	76	4.1			Rank	74 / 144	85 / 148	80 / 144	73 / 140	73 / 138	76 / 137
Subindex A: Basic requirements	56	4.8			Score	4.1	4.1	4.0	4.1	4.2	4.1
1st pillar: Institutions	34	4.6									
2nd pillar: Infrastructure	45	4.7									
3rd pillar: Macroeconomic environment	95	4.3									
4th pillar: Health and primary education	70	5.8									
Subindex B: Efficiency enhancers	65	4.2									
5th pillar: Higher education and training	53	4.6									
6th pillar: Goods market efficiency	77	4.3									
7th pillar: Labor market efficiency	121	3.5									
8th pillar: Financial market development	60	4.1									
9th pillar: Technological readiness	36	5.3									
10th pillar: Market size	89	3.3									
Subindex C: Innovation and sophistication factors	87	3.5									
11th pillar: Business sophistication	83	3.8									
12th pillar: Innovation	93	3.1									

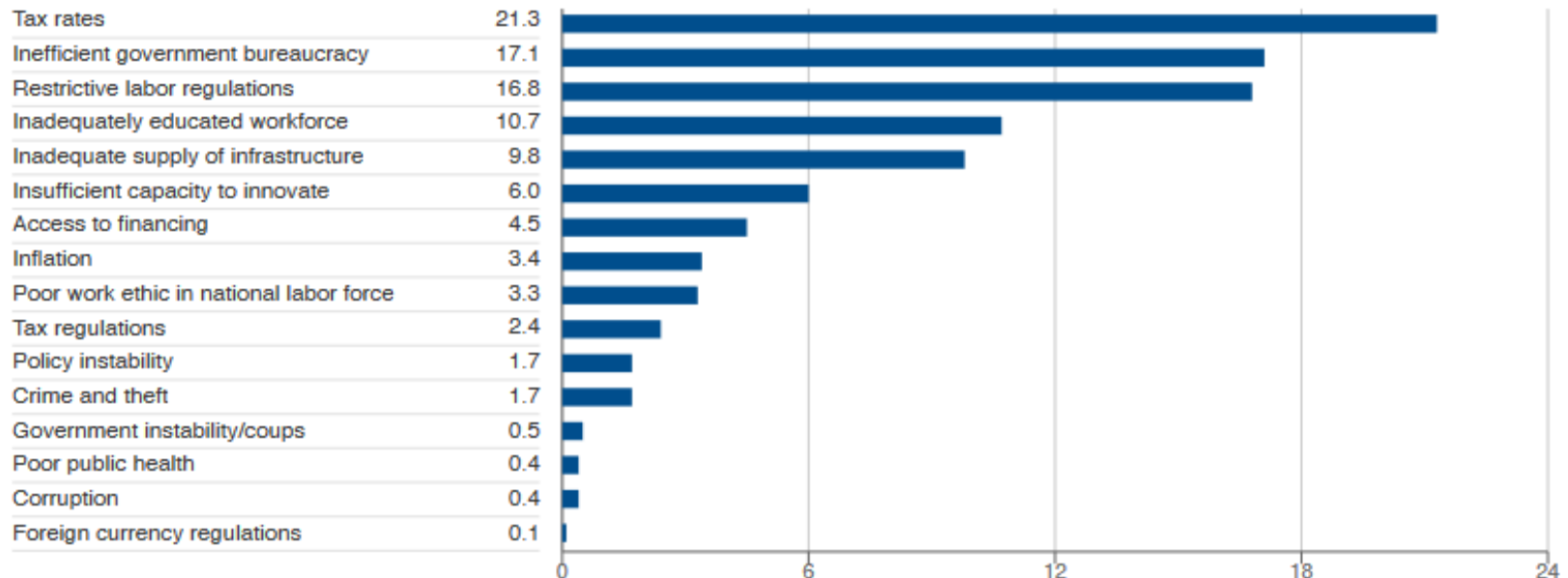


URUGUAY



Most problematic factors for doing business

Source: World Economic Forum, Executive Opinion Survey 2017



URUGUAY

Agribusiness

Agribusiness is an innovative and continuously improving sector. It is positioned as a great-stimulating area for the Uruguayan economy, representing three-quarters of the exports of goods.

As a country that **ensures reliable products of superior quality**, Uruguay has attracted first class companies as the destination of its operations. From Uruguay, agricultural products are provided to a world with an everyday increasing demand.

Uruguay supplier of the world



73% 
of the exports

25% 
of GDP corresponds to
the agricultural sector

1/3 
of the investments
in innovation

URUGUAY

Infrastructure and Logistics

98% 

of electrical energy comes from renewable sources



Better electricity supply in the region

#3 

Logistic performance index of the World Bank



The densest road network in Latin America

2015-2019
Investment
Plan

Million
USD

Energy 4.230

Roads 2.360

Social
infrastructure 1.870

Housing 1.320

Communications 750

Water and
sanitation 550

Ports 550

Rail transport 360

Others 380

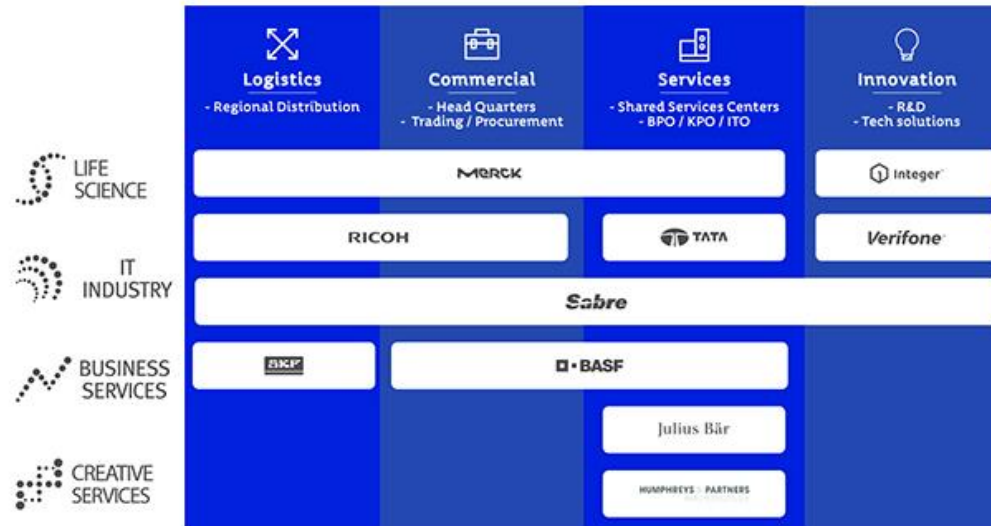
Total 12.370

Additional commitment on
mega-projects
1,100 million USD

URUGUAY

Global Services

Uruguay has become the most reliable **destination** for **Global Corporate Service Centers in Latin America**. Every year, global companies establish regional centers that combine platforms or activities of: regional distribution centers, regional corporate centers, shared service centers, shopping centers, IT development centers, R & D centers and advanced manufacturing projects.



Logistics
- Regional
- Distribution

Commercial
- Head Quarters
- Trading / Procurement

Services
- Shared Services Centers
- BPO / KPO / ITO

Innovation
- R&D
- Tech solutions

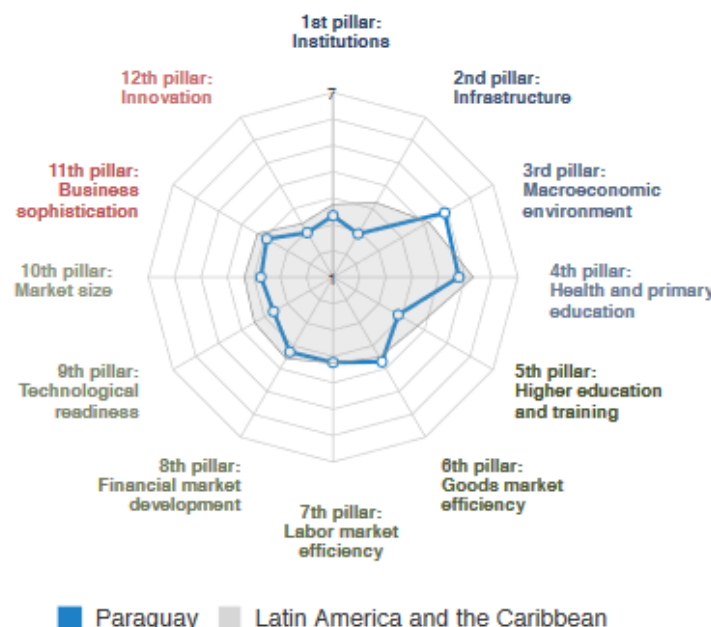
Key indicators, 2016

Source: International Monetary Fund; World Economic Outlook Database (April 2017)

Population millions	6.9	GDP per capita US\$	4,003.3
GDP US\$ billions	27.4	GDP (PPP) % world GDP	0.02

Performance overview

Index Component	Rank/137	Score (1-7)	Trend	Distance from best	Edition	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Global Competitiveness Index	112	3.7			Rank	116 / 144	119 / 148	120 / 144	118 / 140	117 / 138	112 / 137
Subindex A: Basic requirements	108	4.0			Score	3.7	3.6	3.6	3.6	3.7	3.7
1st pillar: Institutions	131	3.0									
2nd pillar: Infrastructure	118	2.6									
3rd pillar: Macroeconomic environment	42	5.2									
4th pillar: Health and primary education	104	5.1									
Subindex B: Efficiency enhancers	106	3.6									
5th pillar: Higher education and training	107	3.4									
6th pillar: Goods market efficiency	86	4.2									
7th pillar: Labor market efficiency	106	3.8									
8th pillar: Financial market development	82	3.8									
9th pillar: Technological readiness	103	3.2									
10th pillar: Market size	87	3.3									
Subindex C: Innovation and sophistication factors	121	3.1									
11th pillar: Business sophistication	114	3.5									
12th pillar: Innovation	127	2.7									



PARAGUAY

22%

BEST ROI OF ALL SOUTH AMERICA



OPPORTUNITY TO GENERATE FOOD FOR ALL THE WORLD

4.8%

AVERAGE GROWTH OF GDP OF THE LAST 10 YEARS



OPPORTUNITY IN INFRASTRUCTURE HOUSING-ROAD
INFRASTRUCTURE-SERVICES

5%

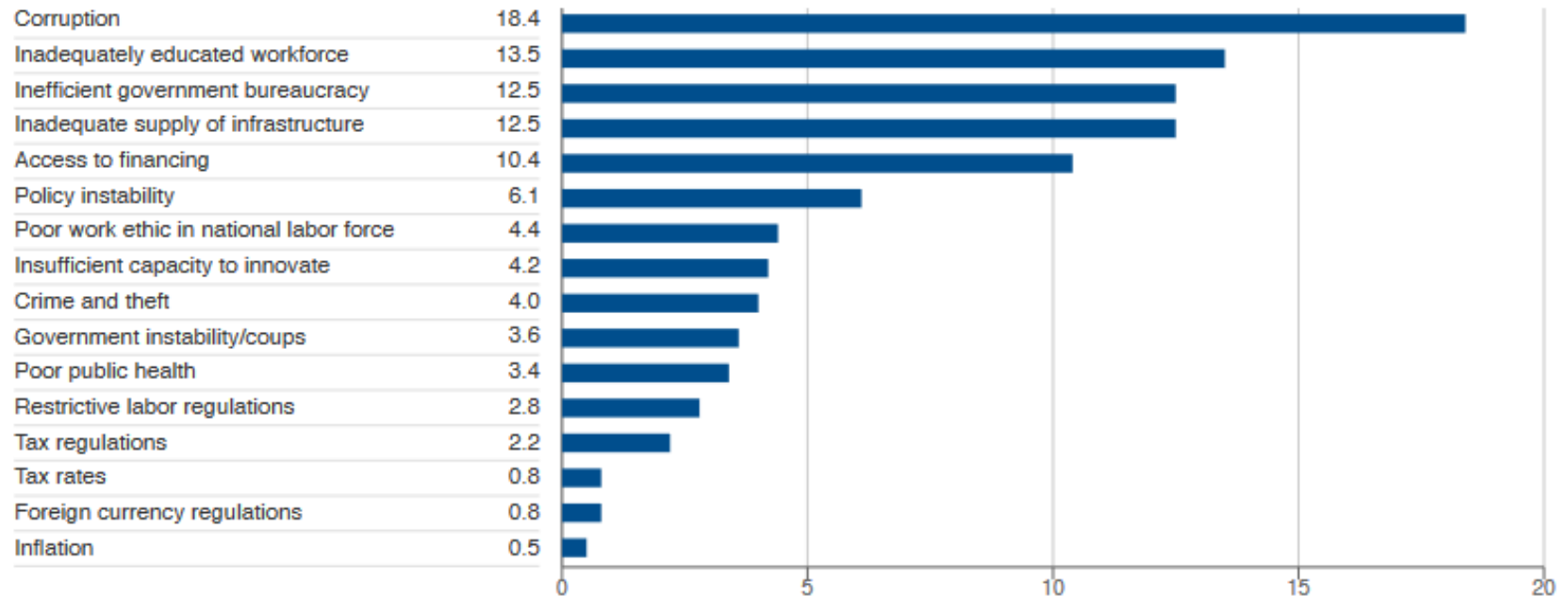
MAXIMUM INFLATION IN THE LAST 5 YEARS



ABUNDANT ELECTRIC ENERGY AT COMPETITIVE PRICES

Most problematic factors for doing business

Source: World Economic Forum, Executive Opinion Survey 2017





MAQUILA - PARAGUAY

En julio del año 2000 fue reglamentada la LEY 1064/97 "DE LA INDUSTRIA MAQUILADORA DE EXPORTACIÓN", que tiene por objeto promover el establecimiento y regular las operaciones de empresas maquiladoras que se dediquen total o parcialmente a realizar procesos productivos tangibles o intangibles, combinando bienes o servicios de procedencia extranjera importados temporalmente, con mano de obra y otros recursos nacionales, destinando su producción a los mercados de exportación.

Esta actividad es realizada en virtud del Contrato de Maquila, suscrito entre una empresa domiciliada dentro del territorio nacional (Maquiladora) y otra domiciliada en el exterior (Matriz).

Sector	Competitiveness Factor		Paraguay vs. Brazil
<ul style="list-style-type: none"> • Clothing • Footwear • Autoparts • Appliances • Agricultural Production • Chemical and Metal Products 	Labor:	Skilled Worker	(-) 53,2%.
	Salary / hour (Average in USD)	Machine operator	(-) 29,3%.
		Laborer	(-) 35,2%.
		Average Salary / Month	(-) 20,7%.
	Young population		(+) 8,0%.
	Electrical energy	USD/MWh	(-) 63,6%.
	Taxes	VAT	(-) 63,2%.
INCOME TAX		(-) 60,0%.	

SOURCE: Supply Chain Report, IPIE - IDB, progress report, jan2014

PARAGUAY



MAQUILA

TAX	PARAGUAY	ARGENTINA	URUGUAY	BRAZIL
Corporate Income Tax (*)	≤10%	35%	25%	34%
Personal Income Tax	10%	35%	25%	27,5% +
Value Added Tax (VAT)	≤10%	21%	23%	25%

Tariff for Imports of Capital Goods (Machinery and Equipments)

0%

(VAT) Capital Goods Acquired (Inside or outside the country)

0%

Debt: Tax apply to remittances and payments in concept of Capital, Interests and Commissions (for investments over US\$ 5 mill.)

0%

Revenues: Tax apply to dividends and utilities (for investments over US\$ 5 mill., for a period of 10 years)

0%

The most Competitive Tax Scheme and Fiscal Benefits in the region

(*) Obs: if distributed internationally it may be up to 27.5%

Source: Ministerio de Hacienda (www.hacienda.gov.py)



TAX INCENTIVE REGIME FOR THE INVESTMENT OF CAPITAL OF NATIONAL AND FOREIGN ORIGIN

LAW 60/90

The purpose of this Law is to promote and increase capital investments of national and/or foreign origin that seek:

"The increase in the production of goods and services"

"The creation of permanent sources of work"

"Export promotion and import substitution"

"The incorporation of technologies that allow to increase the productive efficiency and make possible the greater and better use of raw materials, labor and national energy resources".

TAX AND MUNICIPAL BENEFITS

Established in Article 5 and modified by Law No. 2421/04, subsections:

c. Total exemption from customs duties and other equivalent charges, including internal taxes of specific application, on the importation of capital goods, raw materials and inputs for the local industry, provided for in the investment project; The Services activities are taxed by VAT. In addition, when there is domestic production, tax incentives for the importation of capital goods are not granted.

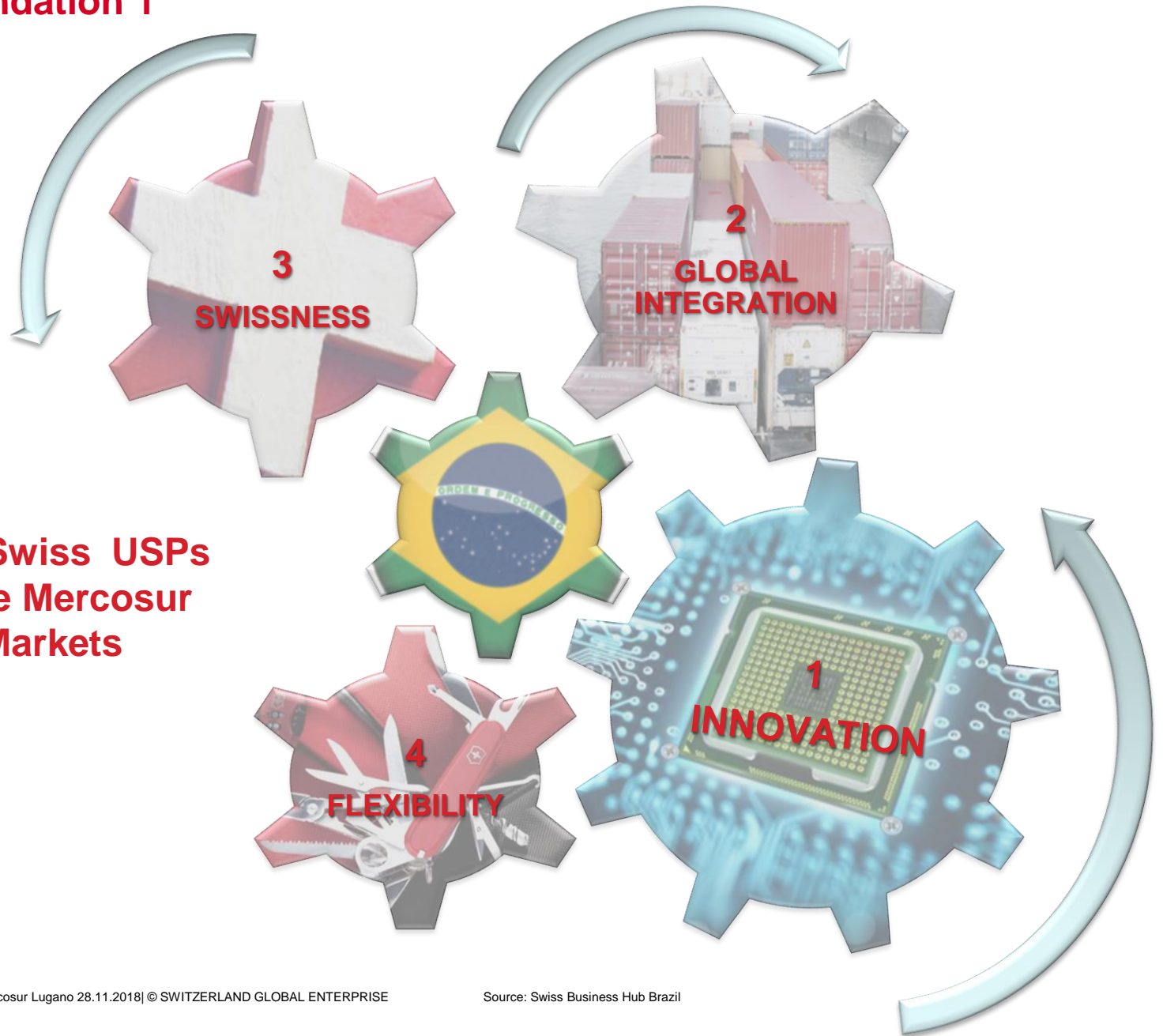
f. When the amount of FINANCING from ABROAD and the activity benefited by the investment is at least US\$ 5,000,000, the payment of taxes on remittances and payments abroad for interest, commissions and capital will be exempt, for the term agreed upon, provided that the borrower is one of the entities indicated in Article 10, paragraph g) of Law No. 125/91.

h. Total exemption from taxes levied on DIVIDENDS AND PROFITS from approved projects, for a term of up to ten (10) years, counted from the commissioning of the project when the investment is of at least US\$ 5,000,000 and the tax on such dividends and profits is not tax credit of the investor in the country from which the investment comes.

6. RECOMMENDATIONS FOR SWISS SMES

Recommendation 1

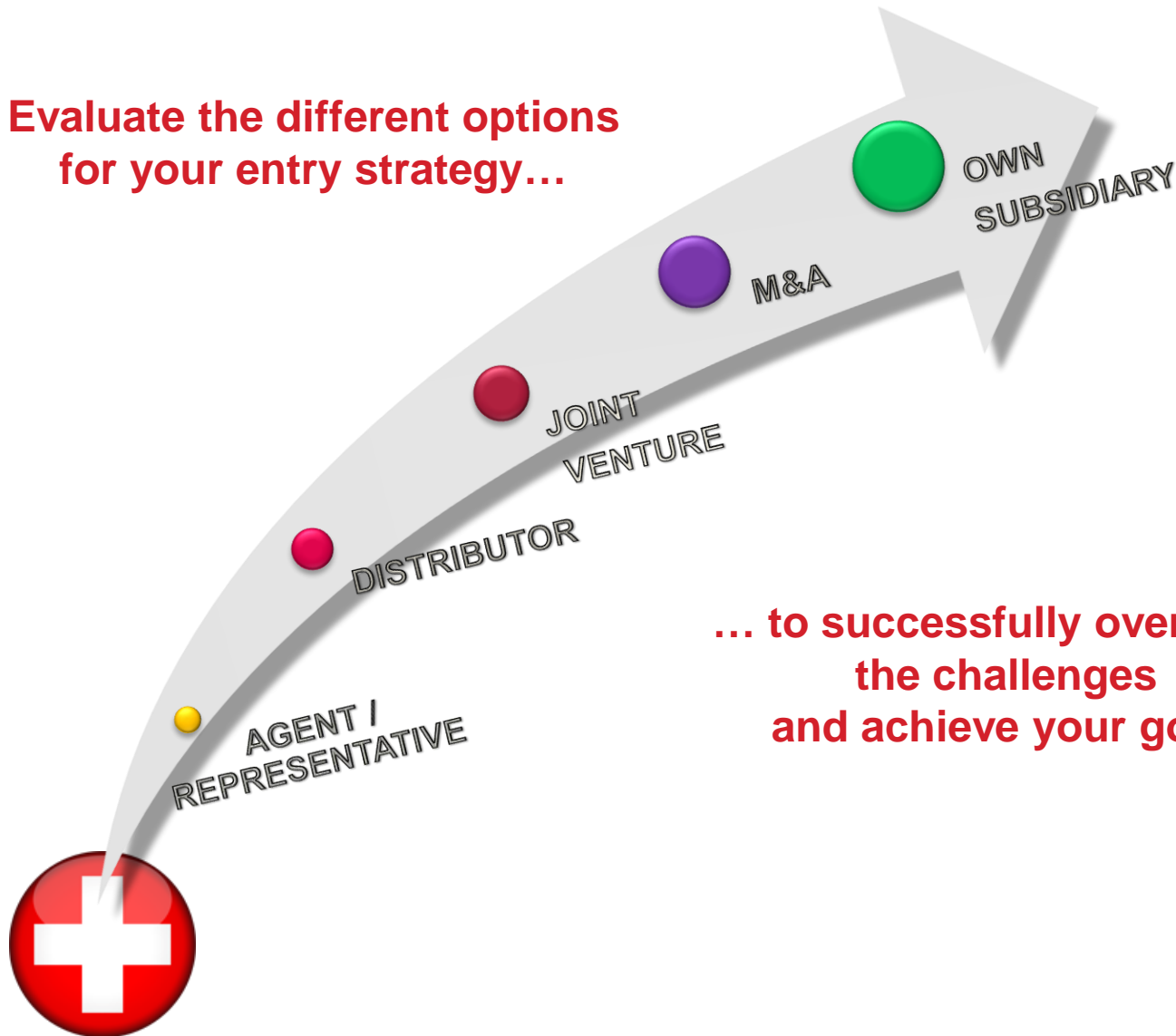
**Use Swiss USPs
in the Mercosur
Markets**



Recommendation 2



Evaluate the different options
for your entry strategy...



... to successfully overcome
the challenges
and achieve your goals

Recommendation 3

**Sometimes, what you hear
is not what it means...**

Know the local business culture

What a Brazilian distributor says:

We cover the whole country.

What a Swiss manager hears:

Wonderful, this distributor has a presence all over Brazil and could be the „one-stop-solution“ I am looking for in Brazil.

What the Brazilian means:

I actually only cover the state of Sao Paulo, and even there just some regions. In other states, I have some contacts that I may bring in this business if it develops well (and if I have time, which I never have anyway).



Questions?



Thank you for your attention.

FABIO SPECIALE



Senior Consultant South America

fspeciale@s-ge.com
+41 76 528 24 61
+41 44 365 54 75

Switzerland Global Enterprise
Stampfenbachstrasse 85
8006 Zürich
Switzerland

BENJAMIN WERENFELS



Consultant Latin America

bwerenfels@s-ge.com
+41 44 365 53 17

Switzerland Global Enterprise
Stampfenbachstrasse 85
8006 Zürich
Schweiz