

MAY 8 - 14, 1993

For the past eight years, the FWA has organized an International Business Conference for a senior delegation of its members and guests. In 1993, the FWA conference was held in Buenos Aires because Argentina has been a major economic miracle story and the location of key investment activity.

The Conference included programs on the economy, the sociopolitical environment, capital markets, financial institutions, business opportunities, investment opportunities and achievements of women in business. Delegates met with business leaders, financiers, economists, government officials and entrepreneurs.

Delegates were also introduced to cultural aspects of Argentina, including a concert at the Teatro Colon, and an afternoon highlighting agribusiness at the Estancia Las Acacias, both events sponsored by Citibank, as well as an introduction to Latin American art at the Perez Cellis Gallery, and an evening of tango. The Delegates were also hosted by Colgate to an "off the record" dinner with prominent local business leaders, and were invited to private homes to meet Argentine writers, artists, musicians, professors and historians.

OSCAR CAMILION MINISTER OF DEFENSE

Oscar Camilion, Argentine Minister of Defense, was the featured speaker at a luncheon sponsored by Credit Lyonnais Securities Argentina. Camilion described how he joined the Menem Government 18 months ago with a charter to reorganize and privatize the defense sector. At that time the defense budget of \$4.3 billion represented 10% of the total country budget and 1.5% of annual gross national product.

Privatization of the defense sector has been largely accomplished. The commercial businesses under the Ministry of Defense such as steel, mining and petrochemicals have been privatized. This process has generated cash for the Government, including a substantial amount from foreign investment, and eliminated the need for ongoing subsidies.

Military risks remain. Now the major question is "What is the appropriate level of defense capability in the '90s?" Argentina takes great pride in its history as a major power in the Southern hemisphere. However, the defeat in the Malvinas Islands caused Argentines to question the role of the

military. Today, Camilion feels that the biggest short-term risk is possible failure by Brazil to manage its economic growth, which could result in political unrest in the border areas. Camilion also pointed out that with the end of the Cold War, "we live in a more peaceful but less predictable world".



Defense Minister Camilion (center) with Nora Z. de Trotta, Credit Lyonnais Securities; Lore Monnig; Margaret Newborg; and Horacio Rodriguez Larreta, Ministry of Defense.

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- VIVIANA FRIDMAN**
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Abogada and President of the
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U.S. EMBASSY BRIEFING

Terence Todman, U. S. Ambassador to the Republic of Argentina, and his wife met with the FWA delegation at an elegant reception hosted by Baker & McKenzie. The following morning the Delegation went to the U. S. Embassy for a briefing by the Ambassador and his staff.



Ambassador Todman

"You've picked a good time to be here," said Ambassador Todman. When he arrived, in June 1989, the country was in dire political straits, in the process of transferring power to President Menem. Since then its course has been steadfast. The commitment to close relations with the U.S. is strong, he said, and today Argentina is avidly consuming U.S. products and culture.

Following the briefing by Ambassador Todman, attachés in labor, education, economics, agriculture and politics answered questions and provided insights from their particular perspectives.



ECONOMIC OVERVIEW

Argentina is a country of 33 million inhabitants with a territory that is the eighth largest in the world. Its people are of mainly southern European heritage, with Italian and Spanish descendants representing two-thirds of the population. It is self-sufficient in food and energy, and it was one of the world's richest countries in the first half of the 20th century.

Pre-1989, Argentina's economy was on a destructive course, according to *Roberto T. Alemann*, Managing Partner of Alemann SRL and previously Minister of Economy, and the Conference's first speaker for the day sponsored by Deloitte & Touche. Argentina's economy has been characterized by inflation—and hyper-inflation—over the past 20 years, running 5,000% a year or 1-5% a day at its worst. Four years ago, people invested in 'greenbacks' and their savings went to finance the U.S. economy.

Argentina today is an economic miracle. Inflation is down to 8% a year and wholesale prices are rising at 2-3%. The economy is now open to outside investment, nationalized industries (telephone, airlines, natural gas, hydroelectric, oil) have been or are being privatized, and waste has been wrung out of an economy where the government was the biggest industry. Opportunities abound for increased foreign trade within Mercosur and abroad, according to *Beatriz Nofal*, Economist and President of B. Nofal y Asoc. President Menem gets credit for the transformation. He embarked on a total overhaul of the formerly closed economy, believing that the government had created Argentina's economic problems and thus had to resolve them.

However, much remains to be done, cautioned *Ricardo Arriazu*, Economist and President of R. Arriazu y Asoc., at a reception sponsored by Banco General de Negocios. Even though important reforms have been accomplished, further reforms are needed in several critical areas: in the public sector, social security and taxation; in the private sector, cost reduction, labor flexibility, and deregulation; and in financial relations with foreign countries.

A new agenda for the 1990's will be based on democracy and economic stability, according to *Guillermo Stanley*, Vice President of Citibank. Government must ultimately reflect the will of the people, and Argentina is in the process of developing consensus in areas such as health, education, security and social welfare.

WOMEN IN BUSINESS

Ten successful Argentine businesswomen addressed the Delegation on two panels, "Women Leaders in Finance" and Women Entrepreneurs". In addition, the Delegation met informally with members of the Business and Professional Women's Association of Buenos Aires and its president, Irma Gigliotti, and the Foro Argentino de Mujeres Ejecutivas and its founder, Viviana Fridman.

The outlook for women in business is positive, in part because of the explosive economic development. Continuing gains are expected, as 51% of the voters and 54% of the university students are female.

Progress may be slow. Even though women have reached higher levels of responsibility, comparatively few have moved into senior management or board membership positions. While women have been successful as entrepreneurs and are increasing their representation in professional positions, they are not doing as well at lower levels due in part to layoffs resulting from privatization. In political parties and in labor unions, women are just starting to be heard.

Panelists Myrna Alexander, World Bank; Ann Pacey, Consultant; Rosa Araguren, Citibank; Viviana Fridman, Ministry of Economy; Nora Z. de Trotta, Credit Lyonnais Securities; and Maria Rosa Segura de Martini, Conciencia.



Privatization Panel: Juan Carlos Iarezza, Banco General de Negocios; Ana Kessler, Ministry of Defense; J.C. Sanchez Arnau, Ministry of Economy; Susana Malcorra, Telecom; and Victor Garcia Laredo, SOCOMA Americana.

INVESTING IN ARGENTINA'S EQUITY MARKETS

The Bolsa de Comercio de Buenos Aires sponsored a day at the stock exchange with four panels discussing different aspects of investing in Argentine equities.

Opportunities abound for investment in Argentina, according to *Guillermo Harteneck*, Under Secretary for Investment, Ministry of Economy. Over \$12 billion in private capital was invested in Argentina during 1991 and 1992 because it has extraordinary natural resources, nondiscriminatory investment laws, labor at a reasonable cost, a largely private economy, improving infrastructure, good living conditions, increasing availability of financing, good local partners, and a friendly attitude towards foreign ownership. Industries that should expand and provide attractive investment opportunities include agribusiness, mining, fishing, transportation, infrastructure, and wholesale distribution.

Investing through the capital markets is increasingly attractive. According to Dr. Jorge Berardi, President of the Bolsa, special emphasis has been put on the development of capital markets by Domingo Cavallo, Minister of the Economy, in order to mobilize investments and savings. Deregulating the markets has helped create a diffusion of capital ownership and more active capital markets. Whereas before 1991 the Exchange had not been a source of new financing, since then over \$3 billion in private corporate bonds have been issued and \$2 billion in equity, including shares from the privatization of state-owned enterprises. Market capitalization of equities now approximates \$20 billion.

Stock market research in Argentina, however, is still in its infancy compared to the U. S., according to the equity research panel. There is a need to develop experienced research teams and to add technical and quantitative analysis to fundamental analysis in order to identify the sectors and companies which will outperform the market. A problem in Argentina is that corporations do not perceive the need to be open with analysts and have not yet grasped the connection between analyst recommendations and stock price performance. As alternatives to investing in individual stocks, *Oscar Berges*, Credit Lyonnais Securities Argentina, discussed investing through funds, and *Juan Navarro*, President of the Exxel Group, described how his company manages a fund raised by Oppenheimer to take strategic stakes in private companies.

Stock market regulation is being increased, according to *Francisco Susmel*, Vice Chairman of the Comision Nacional de Valores (CNV), the equivalent of the U. S. Securities and Exchange Commission. At a dinner sponsored by Lehman Brothers, Susmel described how free market deregulation within the context of appropriate supervision was accomplished under the CNV in cooperation with the Stock Exchange. The CNV now requires increased disclosure to international standards, and is asking Congress for an enforcement structure with more substantive penalties in the areas of market manipulation, insider trading and non-compliance with rules and disclosure.

PRIVATIZATION: A SUCCESS STORY

Privatization has been exhilarating but painful. Exhilarating because of immediate and future economic benefits from selling off government-controlled businesses; painful because the need for resizing the labor force resulted in large government worker reductions. At a luncheon sponsored by Banco Rio, *Roberto M. Ruiz*, Chairman of the Argentine Private Development Trust Company, noted that under President Menem, Argentina has become an attractive country in which to invest, facilitating the privatization process. Argentina has attained economic and monetary stability, competitive markets have been established as a result of deregulation, and the nation's economy has opened both inter-nally and worldwide.

Substantial progress has been achieved. A distinguished panel chaired by *J. C. Sanchez Arnau*, Undersecretary of Privatization for the Ministry of Economy, described the progress in privatization. Assets in government-operated businesses have already been reduced by 73% and the remaining assets are mostly in smaller companies.

The important role of privatization within the overall plan of structural changes in Argentina was illustrated by *Dr. Ana S. de Kessler*, Undersecretary of Restructuring for the Ministry of Defense. The privatizations in the defense sector have been particularly complex and large because they involve "the sale of industrial firms which face serious structural problems and which need to operate efficiently so as to continue to exist in the domestic market and within the area of MERCOSUR".

The process of privatization is being accomplished by competitive bidding, public auction, sales of shares on the stock market, and direct sales. The United States has so far purchased 16% of total assets, which makes it one of the largest investors in Argentina. Others include Spain, France and Italy. Also, Argentinians are repatriating savings to invest in privatized companies.

CARLOS EDUARDO SANCHEZ VICE MINISTER OF ECONOMY

Dr. Carlos Eduardo Sanchez, Vice Minister of Economy, addressed the Delegation at a dinner at the Jockey Club sponsored by J.P.Morgan. His presentation was timely—that week, other senior government officials were making similar presentations to potential foreign institutional investors in connection with the privatization of YPF, the state oil company. The proceeds of the privatization program—\$11.5 billion in cash and debt (at market value) through 1992—has substantially reduced Argentina's foreign debt as well as helped fund social programs within the country.

Convertibility has also played a major role in Argentina's return to fiscal and economic stability. The convertibility plan, conceived by Domingo Cavallo, Minister of Economy, is at the heart of controlling money supply and inflation. The 1-to-1 conversion rate of the peso and the U.S. dollar is crucial to maintain public confidence in the economy and has imposed fiscal discipline. As a result of convertibility, in conjunction with the removal of trade restrictions, the imposition of a value-added tax, privatization and the rest of the Menem/Cavallo restructuring package, Argentina's GDP rose 8.5% in 1991 and 9.0% in 1992. In addition, Argentina now has a fiscal surplus, although it is still battling a trade deficit.

Argentina represents an attractive investment opportunity, according to Dr. Sanchez. The rationale is based on the following factors: political stability, public support for economic reforms, natural and human resources, equal treatment for foreign investors, ability to repatriate profits, lack of controls, drastically reduced inflation, and the success of the privatization program.

FINANCIAL INSTITUTIONS AND CAPITAL MARKETS

The financial sector in Argentina was examined by three panels and three speakers on the conference day sponsored by Price Waterhouse. The financial sector is small compared to other countries, according to *Javier Gonzalez Fraga*, Director of the Argentine Institute of Capital Markets and previously President of the Central Bank of Argentina. Due to inflation, the capital markets and banks have had a short-term economic focus, so little long-term commercial or consumer credit has been available. The equity markets are also small compared to other countries, as measured by the ratio of stock market capitalization to gross national product.

The passage of social security reform should expand the capital markets, according to remarks made by *Steven Darch*, Managing Director of Banco Mariva, at a luncheon sponsored by Avon Products. Presently, only the 50 largest companies can finance in the capital markets, but as private pension funds begin to make investments, the markets will expand. There will be access for medium-sized companies, maturities will lengthen, costs will be reduced and liquidity increased, thus smoothing out the market which currently has mostly large international investors.

Banking should expand, too, according to *Eduardo Escasany*, President of Banco de Galicia y Buenos Aires. With increased repatriation of funds, bank deposits are expected to grow as a percentage of gross domestic product, and more money will be available for lending. In addition, banks will be offering more services and products at more competitive rates. Sophisticated new products such as derivatives are also being developed.

Consumer credit is returning, according to *Mary H. Teaban de Tauszig*, Vice President, Retail Banking, Bank of Boston. Consumer credit, which had virtually disappeared during hyper inflation, is now growing at 90% per annum, and deposits are growing at 60%. Home mortgages, which were unknown in Argentina, are now being offered for the first time.

PRE-CONFERENCE BRIEFINGS

The Role of Argentina in Latin America

WILLIAM R. RHODES,
Vice Chairman, Citibank

Political and Economic Conditions in Argentina

GEORGE RUSSELL, Moderator
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Aegis Financial Services

Equity and Fixed Income Investment Opportunities

GREGORY STOUPNITZKY,
Senior Managing Director, Bear
Stearns, and colleagues

United Nations Briefing

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EMILIO J. CARDENAS,
Permanent Representative of
the Argentine Republic to the
United States

Argentine Consulate Briefing

AMBASSADOR
ARNOLDO M. LISTRE,
Consul General of Argentina

Argentine Embassy Reception (Washington, D.C.)

H.E. CARLOS ORTIZ DE ROZAS,
Ambassador of the Republic of
Argentina to the United States



U.S. Multinationals Panel with Santiago Stewart, Philip Morris; Pedro Kolari, ESSO; Carlos Grimm, Colgate; Enrique Carlos Villar, Cargill; and Jorge Mendez, Avon.

DOING BUSINESS IN ARGENTINA

Doing Business in Argentina was the topic for the conference day sponsored jointly by the Argentine-American Chamber of Commerce with *Carlos E. Alfaro* as President, and the American Chamber of Commerce in Argentina with *Oscar Vignart* as President. Both Alfaro and Vignart were enthusiastic about the Argentine-American alliance and the opportunities for business in Argentina. Alfaro described Argentine companies undergoing dramatic changes that require outside expertise to overcome decades of inefficient management and stagnation. He discussed the need for businesses to become more competitive in worldwide markets, to lower costs and to increase productivity. Vignart gave several reasons why U.S. businesses should enter Argentina now: the fast growing market, high per capita income, and the opportunity to develop strategic alliances in advance of competitors from other countries.

U.S. multinationals are drawn to Argentina. A panel of Argentine executives from five U.S. multinational companies described how they are increasing their investment in Argentina and generating meaningful profits for their U. S. parent companies. Avon finds Argentina is a strong market for direct selling. Colgate is introducing new products familiar in other countries. ESSO's strategy is to increase its marketing activities and expand its convenience store business. Philip Morris is introducing Kraft and other product lines into the market. Cargill's goal is to increase export activity in a variety of products, from fertilizers to foodstuffs.

Argentine companies revise their strategies. Executives of three Argentine companies described their recent successes at a panel discussion and luncheon sponsored by Oppenheimer & Co. BAESA, just days before our visit, became the first Argentine company to list on the New York Stock Exchange. Acquiring the bankrupt Pepsi-Cola franchise in the dark days of 1989, BAESA management combined marketing expertise with capital investment in a modern soft drink facility to create a highly successful new company. Quilmes, the dominant beer company in Argentina, had allowed its business to stagnate through the mid 1980s. By refocusing its efforts on beer and stepping up capital expenditures, Quilmes was revived. Disco is the leading supermarket chain and one of the major food retailers in Argentina. Having survived an era of price controls, heavy regulation, and restrictions on imports that created major shortages, Disco is now free to focus on the consumer.

INVESTING THROUGH ACQUISITION

Mergers & Acquisitions, the Booming Business of the 1990's was the title of an address by *Carlos E. Alfaro*, Partner of Allende & Brea. Prior to 1990, there were few acquisitions in Argentina. Now, with democracy, free market policies, deregulation and integration with NATO and OECD countries, the political and economic basis for merger and acquisition activities has been established.

There are interesting opportunities to acquire small and medium-sized businesses. *Alejandro Travia* of Bullrich (Mercado de Capitales) pointed out that these companies do not have the same access to capital as larger companies. Capital is needed, however, for equipment and new technologies to improve operating efficiency. A strong strategic partner or parent can provide the resources to transform these small and medium businesses into growing, competitive entities.

Potential problems may arise in completing a transaction. *Miguel Menegazzo Cane*, Partner of Baker & McKenzie, described hidden liabilities in the form of past tax and social security obligations and labor commitments. Transparency of corporate financial statements is also an issue. Experts can often structure a transaction to overcome these problems, for example, as an acquisition of assets.

Price is also an obstacle. Not only do sellers in Argentina have high expectations based on the growth in the economy, but many transactions are done for strategic rather than profit reasons.

**THE 9TH ANNUAL
FWA INTERNATIONAL
BUSINESS CONFERENCE**

*The Delegates extend their
sincere thanks to those who
organized the Conference*

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LEFT Mina Knoll, President and Nancy Sellar, Executive Director of the FWA at the Recoleta Cemetery.

ABOVE Viviana Fridman, Privatization Consultant for the Ministry of Economy, with Guillermo Stanley, Vice President, Citibank.

THE PRESS SPEAKS OUT



Jeremy Toye, Reuters

At a press and public opinion panel on the day sponsored by *Reuters*, editors voiced their opinions concerning the past and future progress of Argentina. *Andrea Rodriguez*, News Editor of *Panorama*, pointed out that the economy still needs to see an adjustment on the private side which is being postponed by the consumption bubble of the last two years. *Maria Eugenia Estenssoro*, Economic and Business Editor of *Noticias*, noted the ongoing need for improvement in the judicial system, education and health. Hopefully, the government will pay more attention to these areas now that the economic crisis is over.

PENSION REFORM

The reform of the Argentine retirement system is a bold plan. It offers all non-military employees a one-time option to transfer their pension from the government-run social security system to a private system incorporating both defined benefit and defined contribution retirement plans. Preliminary estimates anticipate a transfer of 3 to 4 million workers, mostly younger, to the private system, representing cash flow of \$1.7 billion to \$2.8 billion per annum. This capital will support economic expansion and foster the establishment of new businesses, such as investment advisors and rating agencies.

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