

sustainable growth. The devaluation-related inflation pressure will remain a significant factor in continued social and financial instability during the first half of 2002. The economic, political and social situation remains very uncertain, and the consensus is that further deterioration is likely before the situation improves.

### **Bilateral Trade**

Bilateral trade between Argentina and Canada increased markedly during the 1990s. From \$173 million in 1989, two-way trade reached \$641 million in 1997 and totalled \$602 million in 1998. Reflecting the economic recession in Argentina in 1999, trade retracted to \$515 million in 1999. At the end of 2001, bilateral trade was \$482 million, down 22% from 2000.

Canadian exports shrank to \$132.1 million, a 46% drop, while Canadian imports reached \$350 million, down 15% from 2000. Domestic consumption in Argentina has dropped sharply, and foreign enterprises are retrenching. The new banking measures have created additional trade hurdles. Some Canadian companies have already reported difficulties in acquiring or transferring funds related to trading activities.

Approximately 40% of current Argentine exports to Canada are agri-food products; a further 20% are copper ores and concentrates; almost 20% are steel-mill products; and the balance includes leather products, fish and seafood, rubber, wood products, plastics, metals, minerals and chemicals. Current Canadian exports to Argentina include electrical machinery (including telecommunications equipment), machinery, newsprint, plastics, optical and medical instruments, dried vegetables, fertilizers, synthetic fibre and cosmetics. In addition, during the last four years, there have been discussions on cooperation between Canada and Argentina on their common interests in the areas of nuclear energy, geoscience, mining, fisheries, space, agriculture, environment, and information and communications technologies.

In November 2001, Canada held bilateral political and economic consultations with Argentina in Buenos Aires, the fifth such consultations since 1995. In December 2001, the Steering Committee of the Memorandum of Understanding on Environmental Cooperation convened a two-day meeting in Buenos Aires attended by representatives from Industry Canada, Environment Canada and Argentina's ministries of social development and environment.

### **Investment**

Argentina is an important investment location for Canada. In 2000, Canadian direct investment in Argentina totalled \$3.6 billion, a 10% increase from 1999 (\$3.3 billion). In 1990, Canadian investments in Argentina amounted to a mere \$123 million. Canada remains one of the most important foreign investors in Argentina. The main focus of this investment has been the oil and gas, mining and energy, agro-industry, banking and telecommunications sectors. The forest sector may also offer potential for further Canadian investment.

Generally, Argentina presents an open market to foreign investors, who are free to enter the country through mergers, acquisitions, greenfield investments or joint ventures. While foreign firms may also participate in publicly financed R&D programs on a national treatment basis, Argentina reserves the right to maintain exceptions to national treatment for real estate in border areas, air transportation, shipbuilding, nuclear energy, uranium mining and fishing. Technical discussions on upgrading the existing Foreign Investment Protection Agreement between Canada and Argentina were last held in January 1998. Canada has been pressing to improve the existing agreement to provide additional stability and transparency to an already-positive bilateral investment relationship.

Due to continuing market and liquidity uncertainties and current foreign exchange controls, foreign direct investment in Argentina is expected to decline significantly in the short and medium terms.

## *Chile*

### **Overview**

The Canada-Chile Free Trade Agreement (CCFTA) and its two parallel agreements on environmental and labour cooperation are now nearly five years old. On July 5, 1997, under the CCFTA, tariffs were eliminated on the majority of products that make up Canada-Chile bilateral trade. For products on which tariffs are being gradually eliminated, the sixth round of tariff cuts will be made on January 1, 2003.