China-LATAM
Going beyond common wisdom
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October 7 2010
Main messages

• Commodity exports are an important driver of the economic relations but..

• Much more is happening
  – China outward FDI into Latam is growing fast
  – Mainly resources but there could be other themes: Geography/production chain
  – China has become a new driver of LATAM business cycle
  – Geopolitics are becoming more and more relevant strategic partnership
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The story so far

Developments on trade

China’s commodity hunger has fueled the rapid expansion of trade with LATAM with a positive impact on terms of trade and growth

LATAM trade with China
In US Billion. Index base 1999 = 100. Source: IMF - COMTRADE

US$ bn
1999=1

- Exports to China/HK (LHS)
- Imports from China/HK (LHS)
- Exports Index (RHS)
- Imports Index (RHS)
China and LATAM complementary trade structure has been a positive partnership for almost all economies in the region.

**China and LATAM-6 trade structure 2009**

% of Imports and Exports Flows. Source: ERD BBVA, COMTRADE

LATAM exports primary products and natural resources manufactures

China exports medium and high tech manufactures

Primary products & Natural resources manuf.
Low, Mid and High-tech manuf.
On the upside, China has become a buffer for LATAM’s business cycle allowing the region to resist the latest world crisis.

**China and LATAM GDP**

% Growth Rate. Source: ERD BBVA

LATAM*: Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela
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What about FDI?

China’s FDI flows on LATAM have gained importance in recent years mainly oriented towards oil and other commodity projects.

**China FDI into LATAM**
In US million. Source: Chinese Ministry of Commerce and ECLAC

![Graph showing FDI inflows to LATAM and % share of China’s FDI into LATAM from 2003 to 2009.](chart)
**Section II**

**What about FDI?**

**M&A**  
**South – South flows are becoming more important** surpassing traditional North – South flows. We are facing the beginning of a new age on capital flows worldwide.

**M&A Operations**  
Source: Thompson

![Graph](image-url)
Section II
What about FDI?

**FDI funding**  China is already a big player investing abroad with the possibility of becoming a larger one if decides to rebalance its international investment position.
China’s FDI investment is not only in natural resources extraction. There are also relevant projects for the manufacturing industry.

**LATAM: FDI projects announced for the manufacturing industry by technology intensity in 2009**

- **High**
  - United States, 31
  - China, 14
  - Chile, 1
  - Japan, 9
  - Korea, 4
  - France, 13
  - Switzerland, 17
  - The Netherlands, 24

- **Medium-high**
  - United States, 32
  - France, 13
  - Italy, 5
  - Canada, 7
  - Chile, 13
  - Others, 5

- **Medium-Low**
  - Brazil, 31
  - Germany, 1
  - Spain, 2
  - Italy, 5
  - Luxemburg, 29
  - France, 14

- **Low**
  - United States, 93
  - Switzerland, 3
  - Others, 4

**Note:** manufacturing industries are grouped according to whether their technology use is high, medium-high, medium-low or low. This classification is based on expenditure on R&D by industry as a percentage of the value added or as a proportion of production for 12 OECD member countries for the period 1991-1999 (OECD, 2009a).
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Currently Chinese trade operations with the US are facing:

- High transport and communication costs
- Long delivery time
- Very different time zones
- Few direct air links, etc

LATAM can be a key partner for Chinese economy.

Chinese trade operations with America (the continent) are dealing with high transport and communication costs, long delivery time, very different time zones, few direct air links, etc.
Section III
The future on economic relationships

Institutional framework

To promote FDI and financial integration between the two regions, LATAM countries have signed FTA and Agreements for Promotion and Protection of Investments in recent years.
LATAM should exploit its geographical proximity to the US market and competitive advantages to attract China’s FDI; thus Mexico can become a not obvious winner in this relationship.

In order to attract FDI, Latin American countries still have much work to do in improving their institutions and infrastructure.

Latin America is and will continue to be an important market for China/HK (export diversification and provision of services).
Challenges for becoming a key partner

The challenge for LATAM is to identify sectors and products where distance and time are key competitive assets. In order to capitalize on these sectors, improvements on infrastructure should come first.

**Infrastructure for Trade in Latin America**

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The role of BBVA
BBVA is a key player for the China-LATAM relations. Currently we have corporate & investment banking, and trade finance solutions for firms with business on the two regions.

BBVA investment in China – Hong Kong over 4 US billion.
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