The New Global Order is Asian: Opportunities and risks for Latin America

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Key Messages

The new global order will be Asian
- Opportunities are concentrated within emerging Asian economies

The future for Latin America
- Latin American economies also have world class players

Partnership with Asian economies
- However, Latin America’s bright future much less dependent on traditional partners and much more on Asia, specially China

Risks and opportunities
- China’s sweet commodity demand has stopped the process of export diversification
- However, opportunities go beyond that China can also become a larger provider of FDI for Latam to produce manufacturing as well as importer of Latin American goods
The new global economic order will be Asian

- Emerging Asian economies to contribute close to 58% to global growth in next 10 years
- Traditional Latin American partners (US and EU) to contribute less than 20%

**Contribution to World economic growth by region between 2011-2021 (%)**

Source: BBVA Research and IMF WEO

<table>
<thead>
<tr>
<th>Region</th>
<th>Contribution (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America</td>
<td>10.5</td>
</tr>
<tr>
<td>Latin America</td>
<td>5.8</td>
</tr>
<tr>
<td>Africa</td>
<td>4.1</td>
</tr>
<tr>
<td>Middle East</td>
<td>5.0</td>
</tr>
<tr>
<td>Asia (ex.Japan)</td>
<td>57.9</td>
</tr>
<tr>
<td>Japan</td>
<td>6.0</td>
</tr>
<tr>
<td>Eastern Europe</td>
<td>5.0</td>
</tr>
<tr>
<td>Australia + New Zealand</td>
<td>1.0</td>
</tr>
<tr>
<td>Middle East</td>
<td>1.8</td>
</tr>
<tr>
<td>Western Europe</td>
<td>7.8</td>
</tr>
</tbody>
</table>
The Asian order will be Chinese ... followed by India in the distance

- China’s incremental GDP will triple that of India.
- India, itself, will have a larger contribution to growth than the US

**Current economic size* and incremental GDP** **2011 - 2021**
(billion USD, adjusted by PPP)

<table>
<thead>
<tr>
<th>Country</th>
<th>Current Size</th>
<th>Incremental GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>11,067</td>
<td>13,718</td>
</tr>
<tr>
<td>United States</td>
<td>14,806</td>
<td>4,820</td>
</tr>
<tr>
<td>India</td>
<td>4,314</td>
<td>3,881</td>
</tr>
</tbody>
</table>

*Current size is indicated by the size of the circle as well as the number below the country's name
**Incremental GDP is found in the number inside the circle
Source: BBVA Research and IMF WEO
Other Asian countries will also be key players

- Indonesia will contribute much more than Japan to global growth.
- Korea as much as Japan and much more than Germany
- Taiwan slightly more than the UK

Current economic size* and incremental GDP** 2011 – 2021
(billion USD, adjusted by PPP)

Current size is indicated by the size of the circle as well as the number below the country’s name

** Incremental GDP is found in the number inside the circle

Source: BBVA Research and IMF WEO
What about Latin America?

- Brazil and Mexico also world class players
- Brazil will contribute to global growth nearly double Japan. Mexico more than Germany.
- Argentina more than Canada, Colombia close to France. Peru and Chile more than Italy

Current economic size* and incremental GDP** 2011 - 2021
(billion USD, adjusted by PPP)

* Current size is indicated by the size of the circle as well as the number below the country's name
** Incremental GDP is found in the number inside the circle

Source: BBVA Research and IMF WEO
However, Latin American relevance in the global arena is more and more dependent on Asia, particularly China
Trade between Asia and Latin America has grown nine times in last 20 years

Trade flows between Asia and LATAM 7 (billion USD)
Source: BBVA Research and COMTRADE
In 2010 the three countries accounted for 84% of total exports to LATAM (114 billion USD). Brazil and Chile accounted for 66% of total exports to Asia which added up to 84 billion USD. Argentina, Mexico and Peru played a minor role.

China is the key trading partner but also Korea and Japan are relevant.

Trade flows Asia to LATAM: the big players
- China: 50%
- Japan: 16%
- Korea: 18%
- Rest of Asia: 16%

Trade flows LATAM to Asia: the big players
- Brazil: 41%
- Chile: 25%
- Mexico: 14%
- Rest of LATAM: 20%
China's ranking as trade partner in Latin America
Source: BBVA Research and COMTRADE

<table>
<thead>
<tr>
<th>Country</th>
<th>Export to China</th>
<th>Import from China</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2000</td>
<td>2010</td>
</tr>
<tr>
<td>Argentina</td>
<td>6</td>
<td>2</td>
</tr>
<tr>
<td>Brazil</td>
<td>12</td>
<td>1</td>
</tr>
<tr>
<td>Chile</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>Colombia</td>
<td>36</td>
<td>2</td>
</tr>
<tr>
<td>Mexico</td>
<td>19</td>
<td>3</td>
</tr>
<tr>
<td>Peru</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Venezuela</td>
<td>35</td>
<td>7</td>
</tr>
</tbody>
</table>
LATAM exports concentrated on commodities: iron ore, soybean, copper, paper and food for animals
Asian exports are manufactured goods, also medium and high value added ones like motor vehicles, communication devices and electronic devices.

Trade flows Asia to LATAM: commodities 2010
- Electrical machinery, apparatus and appliances: 21%
- Machinery, other than electric: 17%
- Transport equipment: 15%
- Others: 47%

Trade flows LATAM to Asia: commodities 2010
- Metalliferous ores and metal scrap: 35%
- Oil seeds, oil nuts and oil kernels: 10%
- Non ferrous metals: 13%
- Other commodities: 42%
Risks and opportunities
Key risk

• Reverting the slow process of export diversification in the Latin American region
  – Maybe true but also happening elsewhere
Latin America continues to rely on commodity exports

The process of diversification away from commodities seems to have stalled in the last few years due to China’s dominance.
Commodity markets increasingly concentrated

The rise of China has concentrated further the demand for commodities (imports)

However supply is also highly concentrated (exports)

Commodity markets concentration
(Gini coefficient)
Source: BBVA Research and COMTRADE

Imports

Exports

Copper
Iron Ores
Soybean
However Latin America still relatively closed. Exports to China are important but not essential.

Exports have a significant share of GDP only in the case of Chile.

Despite its explosive growth, exports to China are still small relative to GDP.
Concentration of exports to China into commodities not only happening in Latam

Trade relations with China are concentrated in three commodities but vulnerability is not the higher when compared to other countries

Relative export dependency on Chinese demand
(0 = no dependence, 100 = total dependence)

Source: Ferchen and García-Herrero. China Economic Quarterly
Key opportunity

Rather than confronting – or ignoring China - engage with it before everybody else does!
China is huge and already here. No single country can change that reality.

China is already the largest export power but not yet a global growth engine except for commodities. This should change over time as China increases the share of consumption in GDP. Furthermore, export structure will change.

**Share in World manufactured exports (percentage)**

*Source: BBVA Research and WDI*
China’s five year plan will transform the economy towards a high value added goods producer

China will follow the same process as Japan and Korea did many years ago: Low value added production will be reallocated to South East Asian economies. Competition to low value good producers will remain; blame is going to turn to others...

**Export market share of R&D intensity Industries**  
(aerospace, electronics, instruments, office machines and pharmaceutical) 
Source: Fu et al. (2010) and BBVA Research

**Export market share of high-tech industries**  
(aerospace, office & computing equipment, communications equipment, drugs & medicines, scientific instruments, and electrical machinery) 
Source: OECD and BBVA Research
China to become a key FDI provider

China needs to diversify its hugely positive international investment position away from reserve assets to FDI and away from the developed world to the emerging world. This is a huge opportunity for Latin American economies. Furthermore, investment will also be geared to manufacture outside China and not only to extract commodities. Increasing cost of transportation also behind this.

International Investment Position 2010 (% of GDP)
Source: BBVA Research and IMF

[Diagram showing international investment position for China, Japan, and Germany with categories: FDI, Portfolio, Derivatives, Other, Reserves, Total]
Opportunities for LATAM: beyond commodity exports

• Huge increase in middle class in China and higher consumption to GDP will bring about huge demand for consumer products (and not only commodities)

• China will use FDI to cover some of the demand of the rest of the world in a decentralized way as Japan and Korea did. Huge opportunity for countries with large demand or access to large markets: Mexico – much less engaged with China so far - should not miss this opportunity!

• Finally China also has the financing muscle to help Latam finance its huge infrastructure needs.
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