China’s role in Latin America: Participation & Consequences

November 2017

Le Xia
Asia Chief Economist, BBVA Research
Index

01 Evolution of bilateral trade and investment

02 LatAm’s export dependency on China

03 China’s OFDI and financial influence in LatAm

04 Existing critiques on China’s role in LatAms and new opportunities
China’s role in Latin America: Participation & Consequences

Bilateral trade has grown very quickly but remains unbalanced

China’s trade ties with Latin America intensified tremendously.

However, the trade relationship is unbalanced as evidenced by huge trade deficit of Latam.

Source: BBVA Research, IMF, DOT and World Bank
Dependency for largest exports centered on four products

Export dependency indexes for commodities accounting for 75-80% of total exports for LatAm-7 (ex.Mexico)

Brazil, Argentina, Chile, Peru, Colombia, Mexico and Venezuela were the main exporters to China in 2014. Excluding Mexico, all of them ranked amongst the top-10 most dependent countries on China.

Source: BBVA Research based on UN COMTRADE statistics
Commodity prices link up growth of China and Latam

LatAm and Chinese growth and commodity prices

Source: IMF
Trade dependency 1

- Export dependency by country on a trade-weighted average basis (Index: 0-1)
- The countries with the highest absolute dependency levels tend to be important commercial partners or strategic allies of China in Latin America.
- E.g. Argentina, Brazil, Chile, Colombia, Costa Rica, Peru, Venezuela

<table>
<thead>
<tr>
<th>Ranking</th>
<th>Country</th>
<th>Dependency 2014</th>
<th>Dependency 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Costa Rica</td>
<td>0.43</td>
<td>0.45</td>
</tr>
<tr>
<td>2</td>
<td>Colombia</td>
<td>0.42</td>
<td>0.22</td>
</tr>
<tr>
<td>3</td>
<td>Uruguay</td>
<td>0.41</td>
<td>0.27</td>
</tr>
<tr>
<td>4</td>
<td>Venezuela</td>
<td>0.37</td>
<td>0.27</td>
</tr>
<tr>
<td>5</td>
<td>Brazil</td>
<td>0.36</td>
<td>0.30</td>
</tr>
<tr>
<td>6</td>
<td>Chile</td>
<td>0.35</td>
<td>0.30</td>
</tr>
<tr>
<td>7</td>
<td>Peru</td>
<td>0.34</td>
<td>0.26</td>
</tr>
<tr>
<td>8</td>
<td>Panama</td>
<td>0.32</td>
<td>0.02</td>
</tr>
<tr>
<td>9</td>
<td>Guyana</td>
<td>0.30</td>
<td>0.00</td>
</tr>
<tr>
<td>10</td>
<td>Argentina</td>
<td>0.30</td>
<td>0.34</td>
</tr>
</tbody>
</table>

90% of Colombia’s exports to China are crude, making the country more dependent than Venezuela.

< 0.1 – 0.2
0.2 – 0.3
0.3 – 0.4
> 0.4

< 0.1
0.1 – 0.2
0.2 – 0.3
0.3 – 0.4
> 0.4

90% of Colombia’s exports to China are crude, making the country more dependent than Venezuela.

Electronic parts account for 88% of Costa Rica’s exports to China.

< 2% of el Salvador, Guatemala, Nicaragua and Mexico’s exports go to China, making them the least dependent.

Chile’s dependency is higher than Peru’s as copper exports account for a more significant proportion of the country’s export basket despite relatively smaller demand from China.

#1 Uruguay’s soybean exports featured the highest dependency on China in the whole of Latin America.
Trade dependency 2

- Change in export dependency index between 2008 and 2014 (∆ %)

- Despite lower overall levels of export dependency, the steepest increases can be observed amongst countries which have traditionally been considered to be closer commercially and politically to the United States.

- E.g. Pacific Alliance, Panama, Uruguay

Notwithstanding lower dependency levels overall, the dependency on China has increased quite rapidly for countries in the Pacific Alliance.

Wood exports from Guyana, Belize, Suriname, Nicaragua and Panama featured the steepest increases in the region.

Oil is the second largest export to China, however low prices in 2014 have translated as modest average dependence increase despite growing volumes.

Chile features some of the highest levels of dependency, however the increase was very modest because China is already an important trade partner for Chile.

The dependency of Uruguay’s meat exports to China increased dramatically as China’s per-capita GDP increases.
China’s role in Latin America: Participation & Consequences

Distribution of Chinese ODI (BBVA estimation)

- **Europe**: 19% USD 13.9 Bn
- **Asia**: 49% USD 41 Bn
- **North America**: 13% USD 11.4 Bn
- **Africa**: 8% USD 5.3 Bn
- **Oceania**: 7% USD 5.9 Bn
- **LAC**: 5% USD 4.4 Bn

**New Silk Road**

**ODI Stock**
- Asia: 49%
- North America: 13%
- Europe: 19%
- Africa: 8%
- Oceania: 7%
- LAC: 5%

**ODI Flows**

**New Silk Road**
Room to increase ODI to the region

Excluding offshore centers, ODI stocks to LatAm increase after adjusting (USD 9.9 Bn vs. USD 23.2 Bn)

<table>
<thead>
<tr>
<th>Region</th>
<th>MOFOCM Total</th>
<th>% Total</th>
<th>Adjusted by BBVA Total</th>
<th>% Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia</td>
<td>447.41</td>
<td>68%</td>
<td>245.32</td>
<td>49%</td>
</tr>
<tr>
<td>Latin America</td>
<td>86.09</td>
<td>13%</td>
<td>23.15</td>
<td>5%</td>
</tr>
<tr>
<td>Europe</td>
<td>53.16</td>
<td>8%</td>
<td>95.19</td>
<td>19%</td>
</tr>
<tr>
<td>North America</td>
<td>28.61</td>
<td>4%</td>
<td>63.19</td>
<td>13%</td>
</tr>
<tr>
<td>Africa</td>
<td>26.19</td>
<td>4%</td>
<td>38.88</td>
<td>8%</td>
</tr>
<tr>
<td>Oceania</td>
<td>19.02</td>
<td>3%</td>
<td>32.70</td>
<td>7%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>660.62</td>
<td>100%</td>
<td>498.46</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: MOFCOM, NBS, SAFE and BBVA Research

Distribution of Chinese ODI in LatAm (USD Bn)

Chinese ODI underrepresented

Source: MOFCOM, NBS, SAFE and BBVA Research

Source: UNCTAD and BBVA Research
China policy bank loans to Latin America

China policy bank loans to Latin America
2005-2011
(total 64.4 US$ billion)

- Venezuela: 57%
- Brazil: 17%
- Ecuador: 8%
- Argentina: 16%
- Bolivia: 1%
- Peru: 1%

Source: BBVA Research, IMF DOT and World Bank

China policy bank loans to Latin America
2012-2016
(US$ 76.9 billion)

- Venezuela: 34%
- Brazil: 33%
- Ecuador: 16%
- Argentina: 7%
- Bolivia: 4%
- Trinidad and Tobago: 3%
- Mexico: 1%
- Jamaica: 1%
- Brazil: 1%
- Others: 1%

Source: BBVA Research, IMF DOT and World Bank

Since 2005, China Development Bank and China Export-Import Bank have provided more than $141 billion in loan commitments to LatAm and Caribbean countries.
Case study: China financial market spill-over effects

Stock market reactions of China’s stock market crash and RMB sharp devaluation

<table>
<thead>
<tr>
<th>Country</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>China Shanghai</td>
<td>30</td>
</tr>
<tr>
<td>US S&amp;P 500</td>
<td>25</td>
</tr>
<tr>
<td>US Dow Jones</td>
<td>20</td>
</tr>
<tr>
<td>Euro STOXX</td>
<td>15</td>
</tr>
<tr>
<td>Asian stock average</td>
<td>10</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>7</td>
</tr>
<tr>
<td>Singapore</td>
<td>5</td>
</tr>
<tr>
<td>Indonesia</td>
<td>4</td>
</tr>
<tr>
<td>Brazil</td>
<td>4</td>
</tr>
<tr>
<td>Peru</td>
<td>7</td>
</tr>
</tbody>
</table>

FX market reactions of China’s stock market crash and RMB sharp devaluation

<table>
<thead>
<tr>
<th>Currency</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>RMB/USD</td>
<td>4.1</td>
</tr>
<tr>
<td>Asian currency average</td>
<td>1.3</td>
</tr>
<tr>
<td>Australia</td>
<td>1.9</td>
</tr>
<tr>
<td>Indonesia</td>
<td>1.6</td>
</tr>
<tr>
<td>Malaysia</td>
<td>2.4</td>
</tr>
<tr>
<td>New Zealand</td>
<td>1.6</td>
</tr>
<tr>
<td>Latam average</td>
<td>1.3</td>
</tr>
<tr>
<td>Brazil</td>
<td>4.1</td>
</tr>
<tr>
<td>Turkey</td>
<td>1.9</td>
</tr>
<tr>
<td>Mexico</td>
<td>1.3</td>
</tr>
</tbody>
</table>

Source: BBVA Research and Bloomberg
Is China the culprit of LatAm’s premature deindustrialization

More thoughts on this point

- Premature De-industrialization: Middle-income Trap
- LatAm worse than other EMs: abandoning strategy of import substitution?
- Manufacturing jobs are shifting to China (Economist 2017)
## Intraregional trade (% of total exports or imports)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Developing Africa</td>
<td>9.7</td>
<td>9.8</td>
<td>10.9</td>
<td>13.3</td>
<td>13.5</td>
<td>12.7</td>
</tr>
<tr>
<td>Eastern Africa</td>
<td>12.4</td>
<td>14.1</td>
<td>13.9</td>
<td>8.8</td>
<td>9.3</td>
<td>7.1</td>
</tr>
<tr>
<td>Middle Africa</td>
<td>1.2</td>
<td>1</td>
<td>1.3</td>
<td>2.6</td>
<td>2.5</td>
<td>3.1</td>
</tr>
<tr>
<td>Northern Africa</td>
<td>3.2</td>
<td>2.9</td>
<td>3.9</td>
<td>2.8</td>
<td>3.7</td>
<td>3.8</td>
</tr>
<tr>
<td>Southern Africa</td>
<td>4.4</td>
<td>2.1</td>
<td>2.1</td>
<td>11.9</td>
<td>10.7</td>
<td>7.9</td>
</tr>
<tr>
<td>Western Africa</td>
<td>10.2</td>
<td>10</td>
<td>9</td>
<td>11.3</td>
<td>12.5</td>
<td>10.2</td>
</tr>
<tr>
<td>Developing America</td>
<td>19.1</td>
<td>17.6</td>
<td>20.6</td>
<td>17.6</td>
<td>19</td>
<td>21.1</td>
</tr>
<tr>
<td>Developing Asia</td>
<td>41.5</td>
<td>45.1</td>
<td>50.1</td>
<td>40.6</td>
<td>49.3</td>
<td>53</td>
</tr>
<tr>
<td>Developing Oceania</td>
<td>1.3</td>
<td>3</td>
<td>3.3</td>
<td>0.9</td>
<td>2.3</td>
<td>2.7</td>
</tr>
<tr>
<td>Europe</td>
<td>67.3</td>
<td>71.4</td>
<td>70</td>
<td>68.3</td>
<td>67</td>
<td>64.4</td>
</tr>
</tbody>
</table>

Source: UNCTAD Statistical database and BBVA Research
China’s role in Latin America: Participation & Consequences

The 19th Party Congress: New Core, New Goal and New Strategy

New economic policy guidelines

- Downplaying growth target
- Shifting from growth speed to growth quality:
  - lower unemployment
  - more equitable income distribution
  - slower debt accumulation
  - reduced environmental damage
- Policy consistency on structural reforms
- Sticking to open-up strategy and pushing forward One Belt One Road
What’s relevant for Latam?

**Policy Implications**
- More consumption-driven growth and less stimulus
- Supply-side reforms (elimination of overcapacity in certain industries) and green growth
- Adherence to opening-up policy and “One Belt One Road” initiatives

**Impact on Latam**
- Dampening demand for commodity (except for agriculture products)
- Shifting production capacity to other countries
- Opportunities and challenges (creation & diversion effects)
One Belt One Road: A new opportunity

Institutions for financing

- AIIB: $100Bn
- BRICS Bank: $100Bn
- Silk Road Fund: $40Bn
- China Latam Fund: $10Bn
- Sino-Latam Production Cooperation Fund: $10Bn
Huge potential for cooperation in infrastructure investment

Infrastructure investment across regions

<table>
<thead>
<tr>
<th>Region</th>
<th>Percentage of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>East Asia and the Pacific</td>
<td>7.7</td>
</tr>
<tr>
<td>Central Asia</td>
<td>4.0</td>
</tr>
<tr>
<td>Latin America and the Caribbean</td>
<td>2.8</td>
</tr>
<tr>
<td>Middle East and North Africa</td>
<td>6.9</td>
</tr>
<tr>
<td>South Asia</td>
<td>5.0</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>1.9</td>
</tr>
</tbody>
</table>

Source: UNCTAD Statistical database and BBVA Research
One Belt One Road: What’s in for LatAm?

Proposed by China’s Premier Li Keqiang in 2017
New Model (“3 × 3”) for further of Production Cooperation between LatAm and China

LatAm needs to think beyond commodities
- Re-industrialization
- Policies to facilitate intra-regional trade.
- Experience of other countries: Industrial Parks (13 in Eurasia countries)
China’s role in Latin America: Participation & Consequences
November 2017

Le Xia
Asia Chief Economist, BBVA Research