

A new international order of commodity
markets:

The role of Asia and Latin America

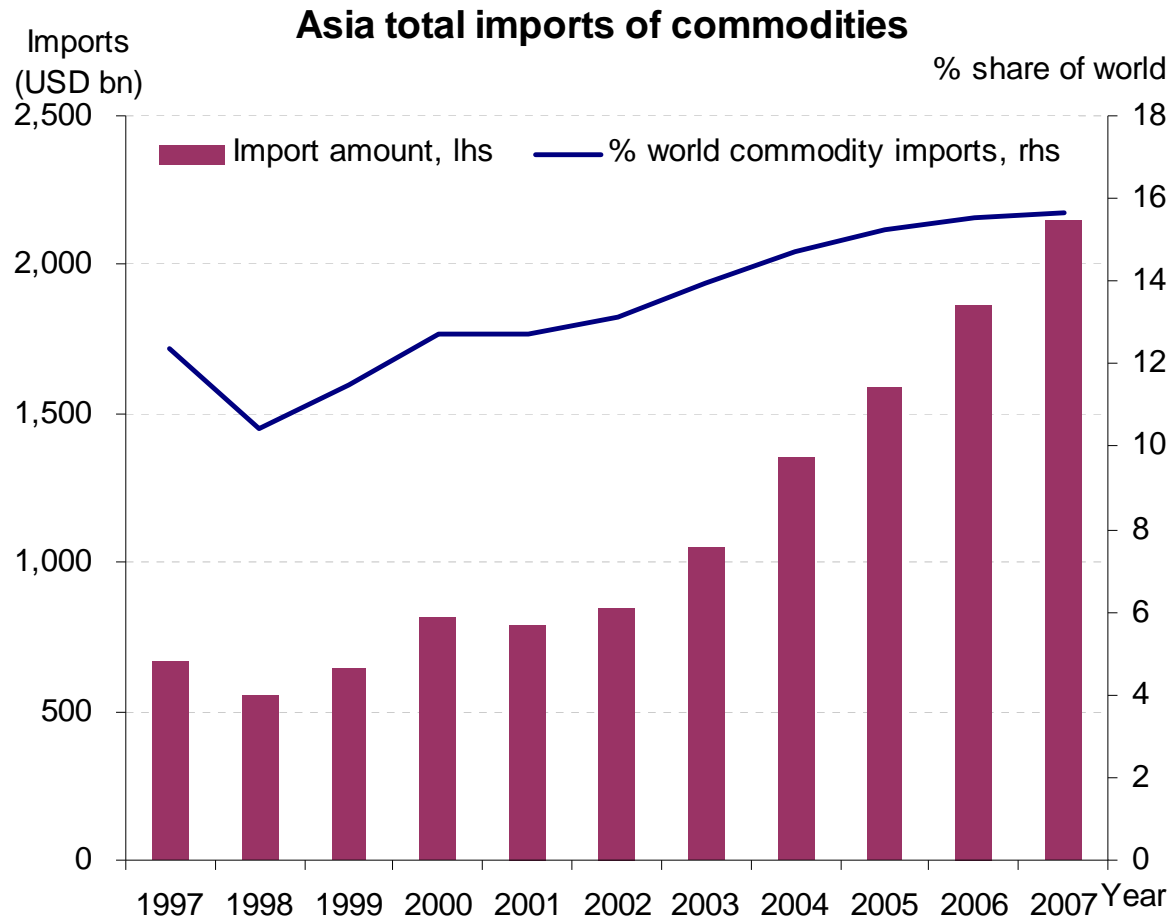
Alicia Garcia-Herrero

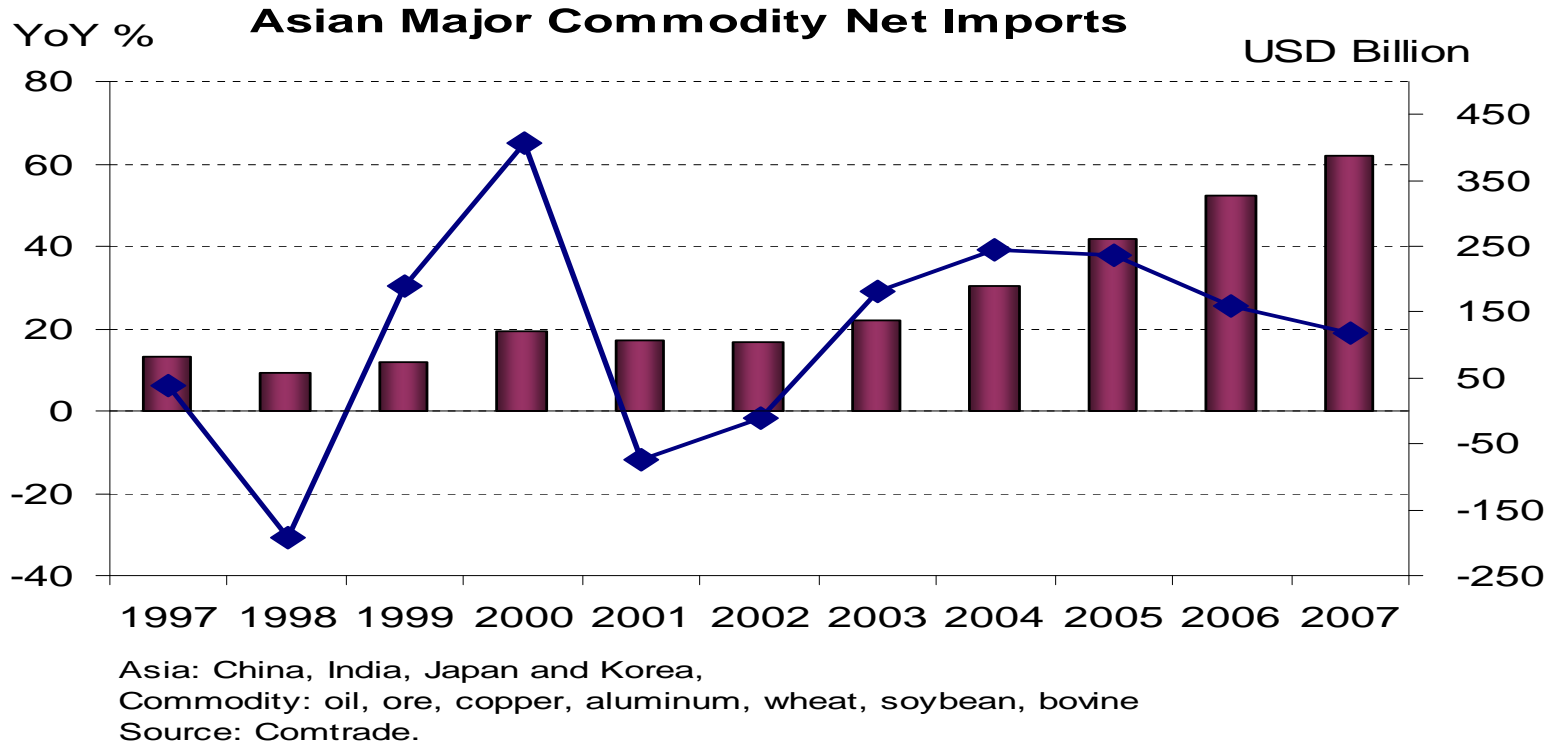
Chief – Economist Emerging Markets

BBVA

1. **The role of Asia and Latin America in the international commodity markets**
2. Trends in trade between Asia and Latin America
3. Prospects
4. Conclusions

- Asia's increasing hunger for commodities is in the news on a daily basis.
- Latin America's large endowment of commodities is also a well known factor.
- However, it is also known that commodities have not always brought welfare to countries, sometimes on the contrary
- Will Asia's demand for commodities change Latin America's negative experience in the past as a resource rich area?

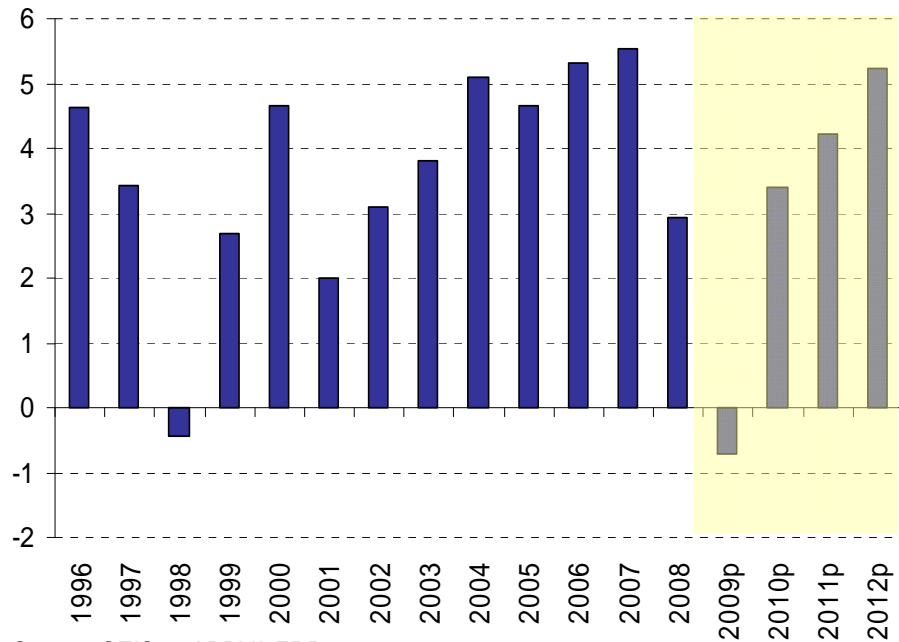




- ❑ Asia is a net importer of commodities: Asian commodity imports are 9 times higher than exports.
- ❑ Net imports have been growing rapidly (at an average of 18% per year since 2000) . As a result they stood at 400 billion USD in 2007 for the five largest countries of the region.

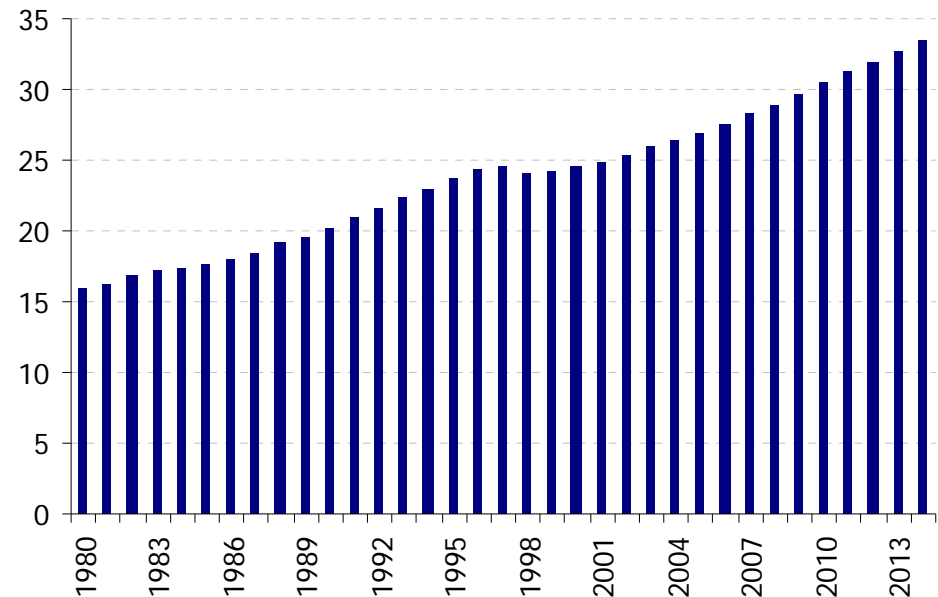
Asian higher demand for commodities is the result of the economic expansion displayed in the last five years...

Asia GDP Growth (%)



Source: CEIC and BBVA ERD

Share of Asian GDP in the World GDP* (%)

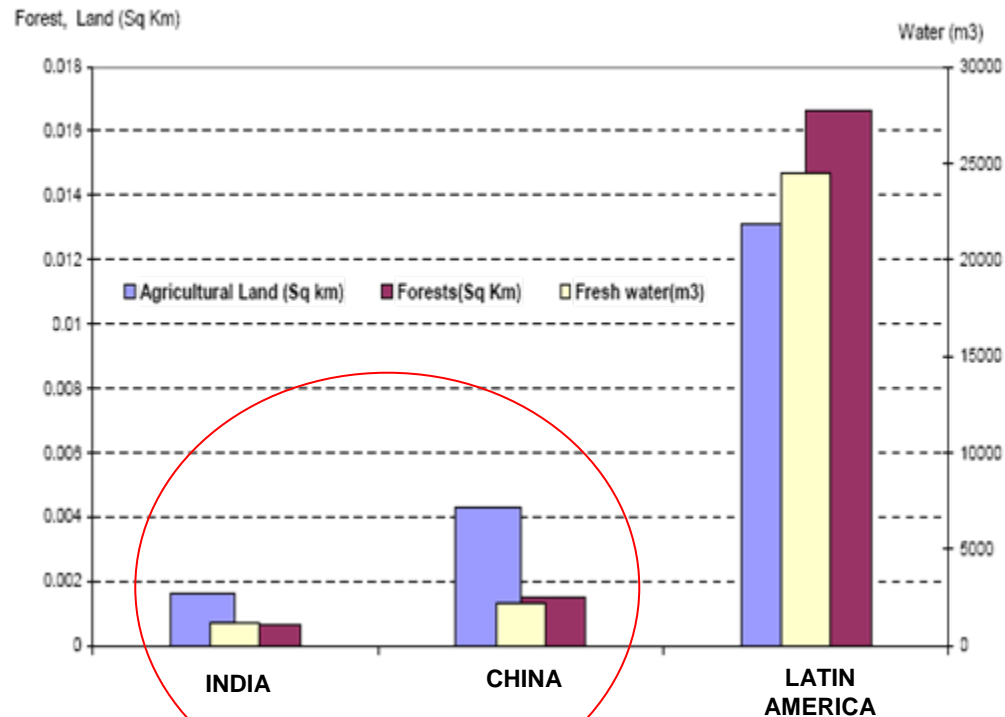
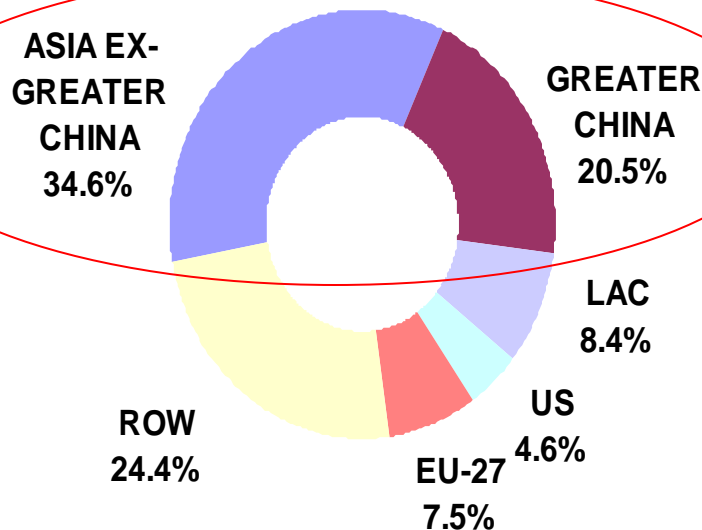


* Asia includes China, India, Japan, Korea, Malaysia, Philippines, Singapore, Indonesia, Taiwan, Thailand.

Source: WEO, IMF

... and of a relative lack of natural resources in comparison to the size of its population. Therefore, the recent economic growth has strengthened Asia's natural role as commodity importer.

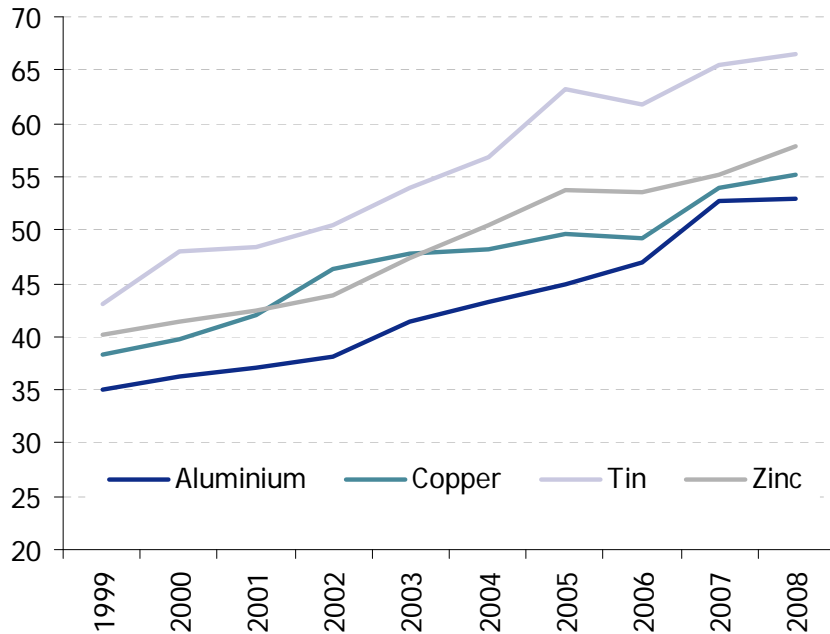
Share of World Population, 2008e



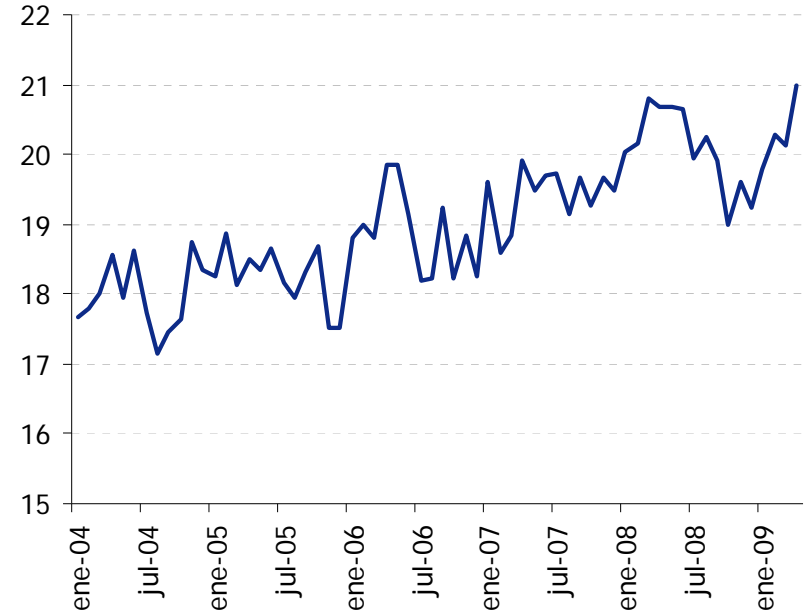
Source: WDI

Asian increasing appetite for commodities transformed the region in the main world consumer of metals and a more significant player in oil markets.

Asian Metals Consumption as a Share of World Metals Consumption (%)



Asian Oil Consumption as a Share of World Oil Consumption (%)

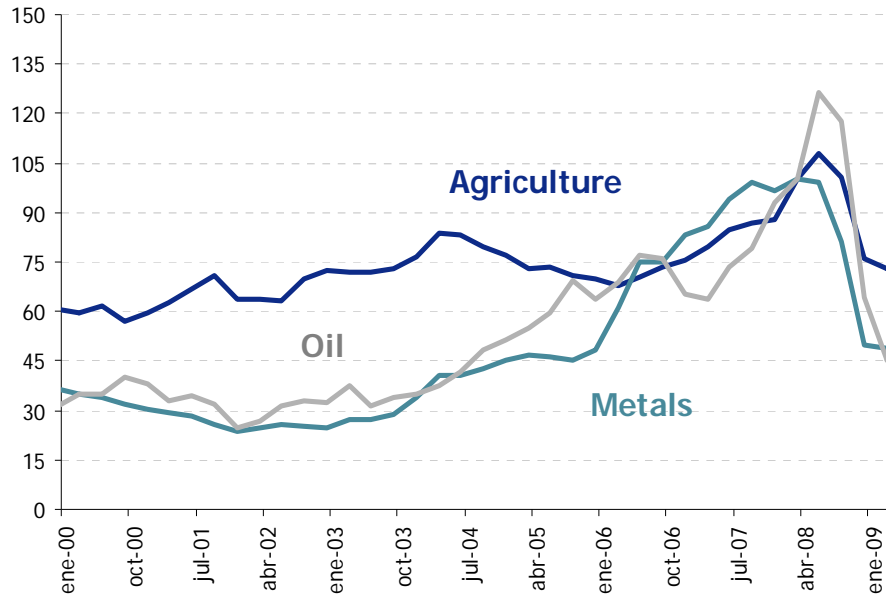


Source: WMS

Source: EIA

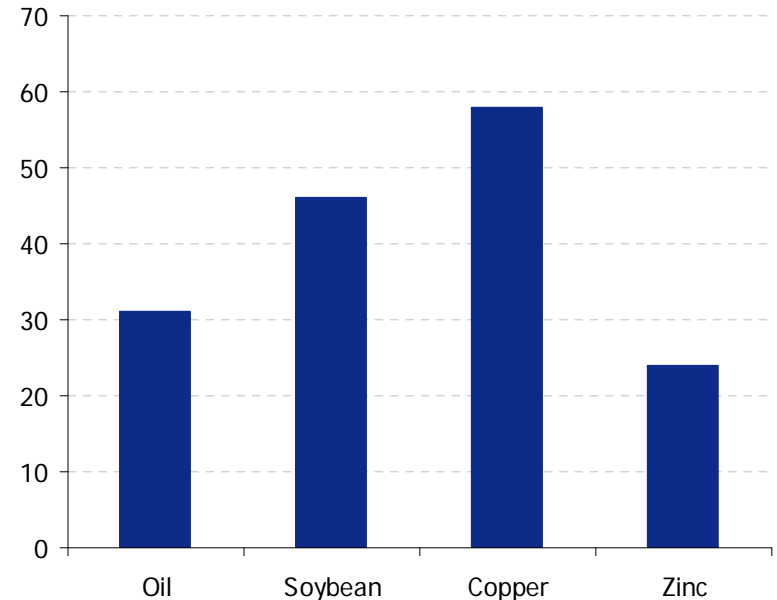
Beyond speculative reasons, Asian higher demand for commodities is behind the surge of prices observed in the last couple of years and also behind 2009's rebound (given slow supply response to such demand)

**Commodity Real Prices
(Index 2008 Q1 = 100)**



Source: CRB, Bloomberg, BBVA

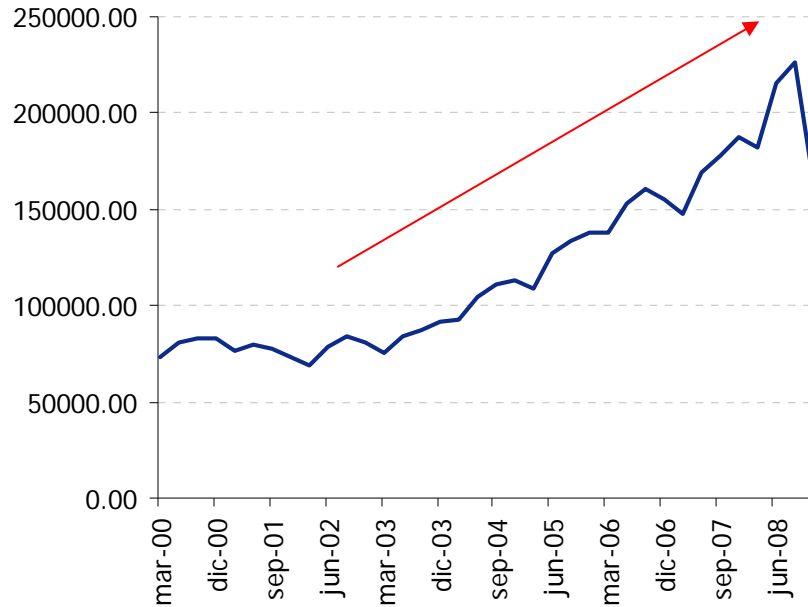
Commodity Prices Variation Year-to-Date (%)



Source: Bloomberg

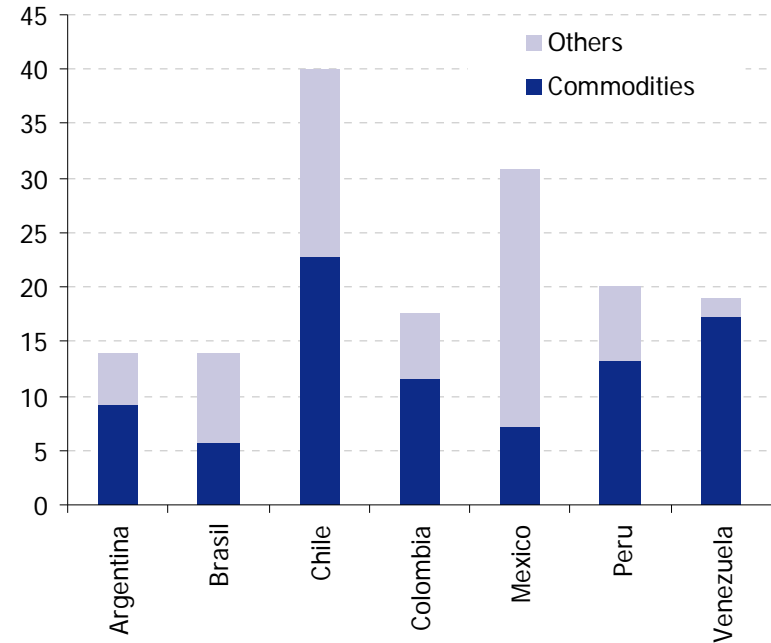
Higher demand and higher prices as well a more stable and sound macroeconomic environment strengthened both Latin American exports and the region's natural role of commodity supplier

**Total Latin America Exports
(USD millions)**

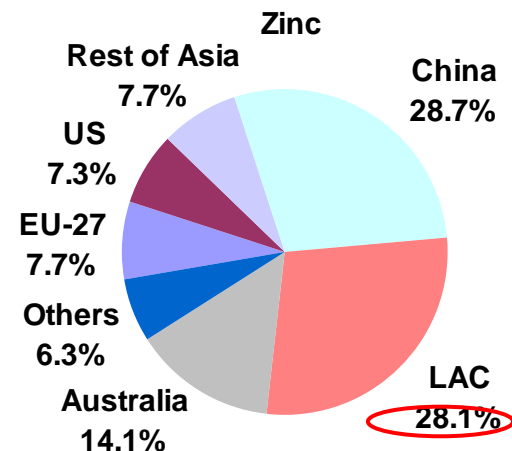
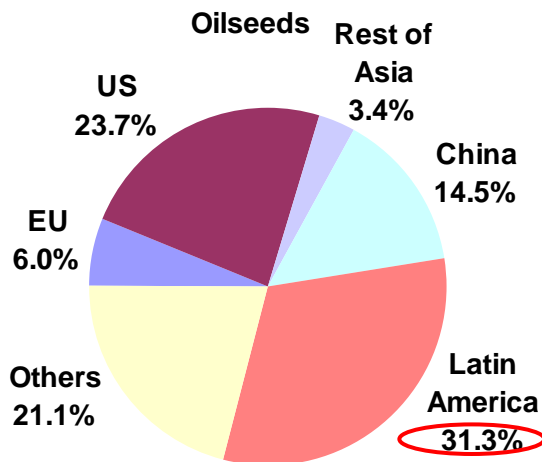
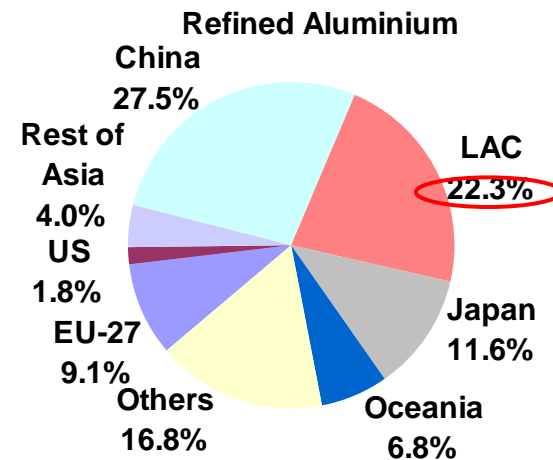
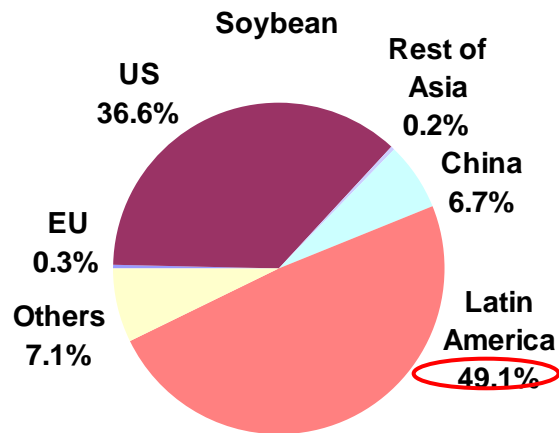


Source: National Statistics Agencies

**Exports
(% GDP)**



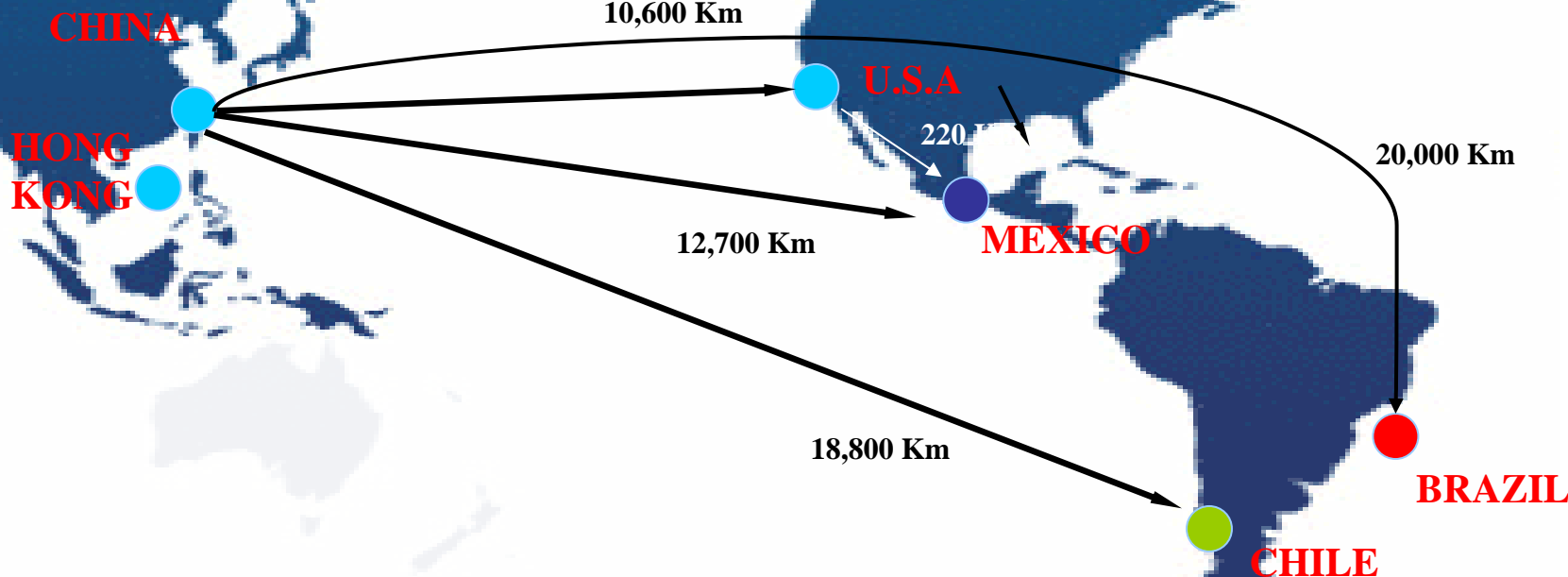
It consolidated its position as main world provider of important commodities



Source: ECLAC (2008)

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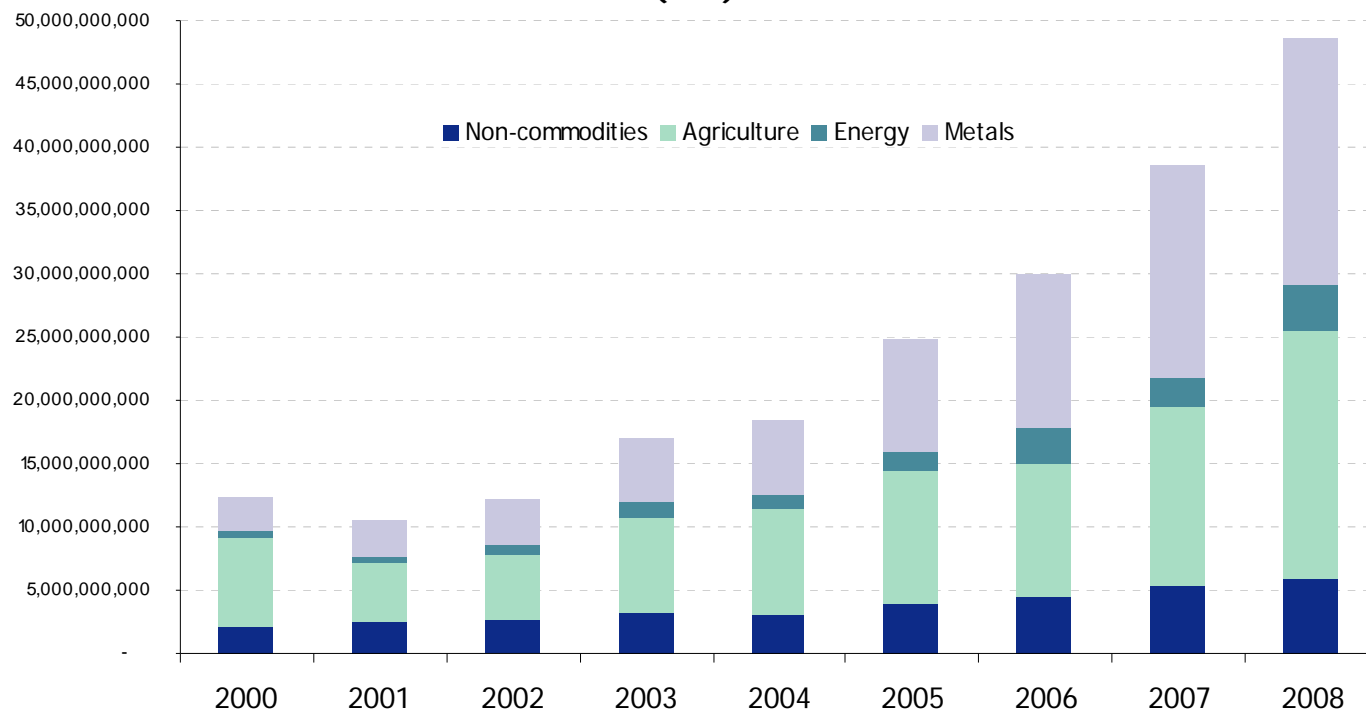
- High transport and communication costs
- Long delivery time
- Very different time zones
- Few direct air links
- Few free trade agreements so far...



Source: ERD BBVA

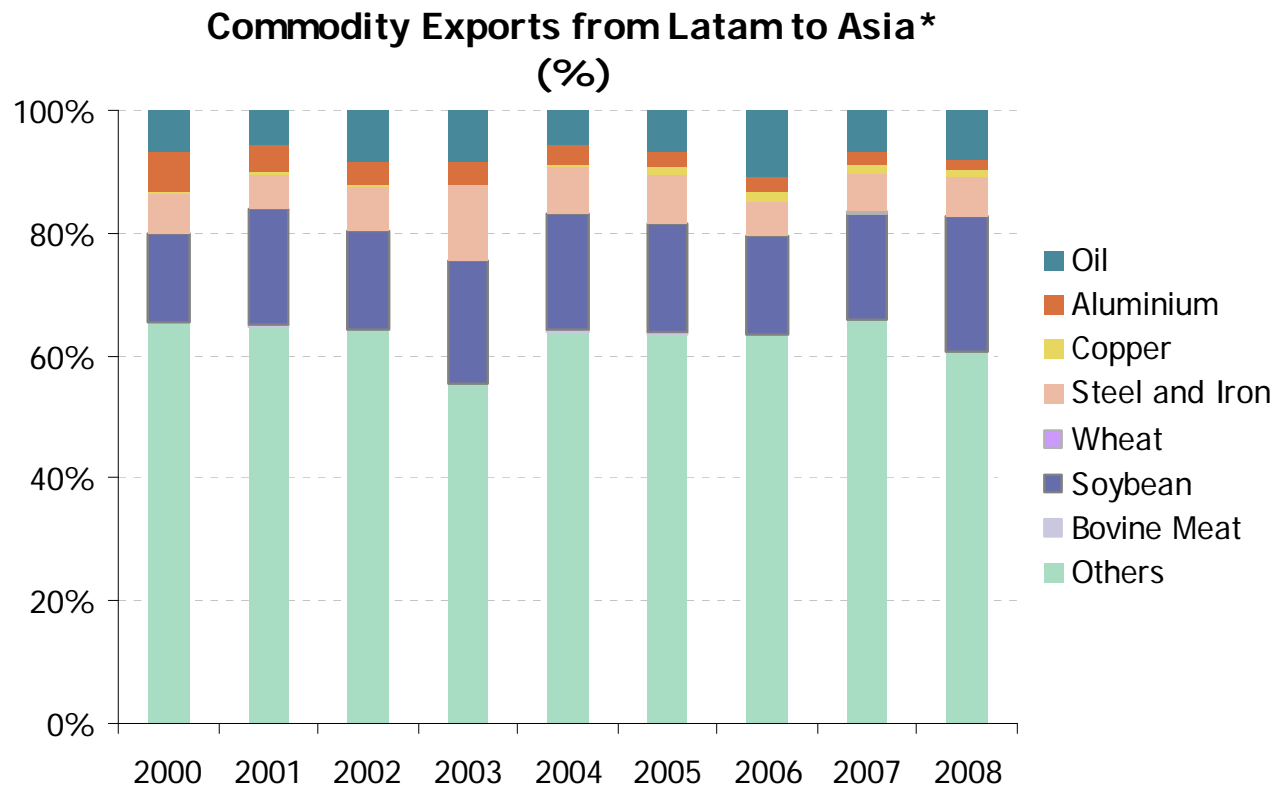
Latin American exports to Asia grew by 23% per year in the 2000 – 2008 period. Commodity exports growth was even faster (88% of total in 2008)

Total Exports from Latam to Asia*
(USD)



Source: CONTRADE. Latam: Argentina, Brasil, Chile, Colombia, Mexico, Peru and Venezuela. 2008 doesn't include Chile and Venezuela. Asia: India, China, Korea and Japan.

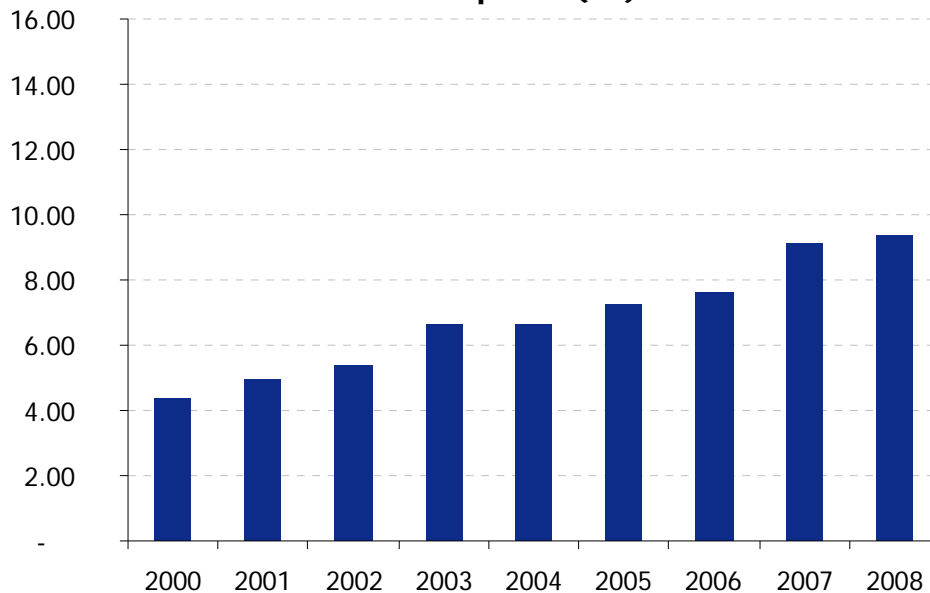
Among commodity exports, soybean has a significant and increasing space in Latam exports. Oil and metals (especially steel and iron) are also very important. Some other products, as meat, still have a lot of room to expand.



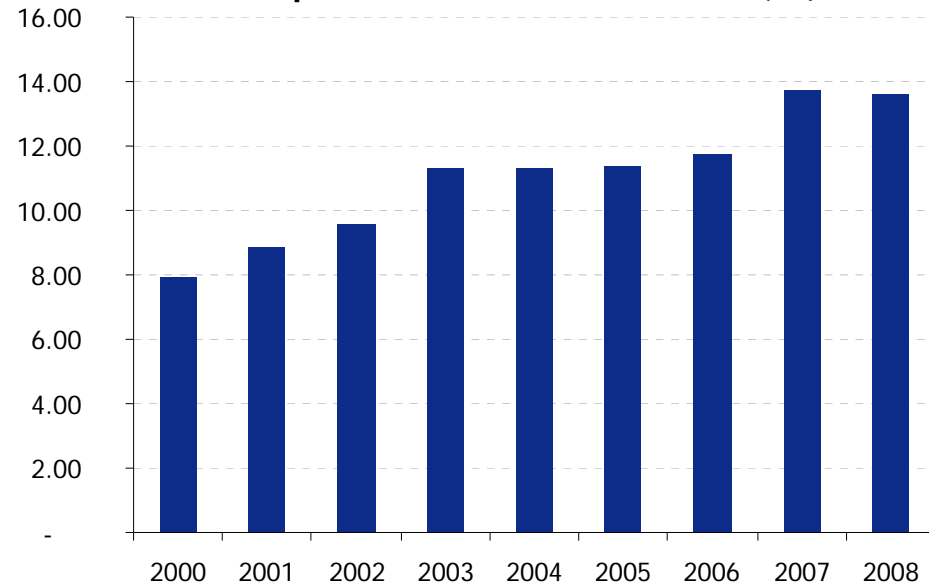
Source: CONTRADE. Latam: Argentina, Brasil, Chile, Colombia, Mexico, Peru and Venezuela. 2008 doesn't include Chile and Venezuela. Asia: India, China, Korea and Japan.

The share of Asian partners in Latin America exports has continued to increase over the last few years.

Share of China, India, Japan and Korea in Latam Exports (%)



Share of China, India, Japan and Korea in Latam Exports - EXCLUDING MEXICO (%)

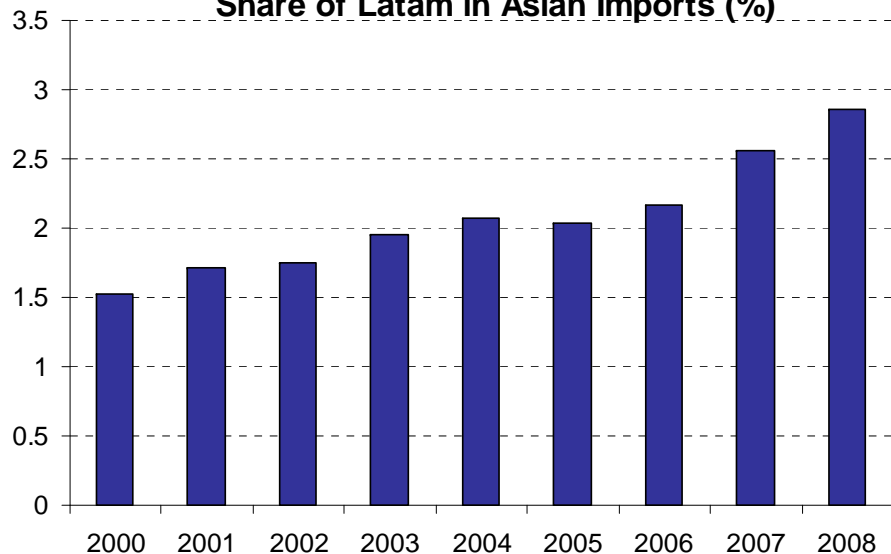


Source: COMTRADE. Latam: Argentina, Brasil, Colombia, Mexico, Peru.

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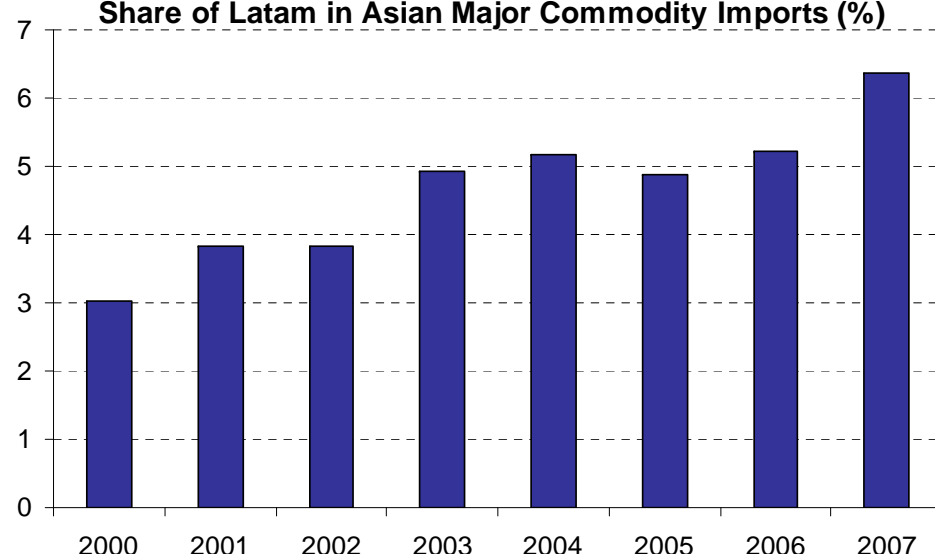
And the share of Latam in Asia's imports has also increased, in special in commodity imports although there is much room for further growth

Share of Latam in Asian Imports (%)



Asia: China, India, Japan and Korea,
 Latam: Argentina, Brazil, Columbia, Mexico, Peru.
 Source: Comtrade.

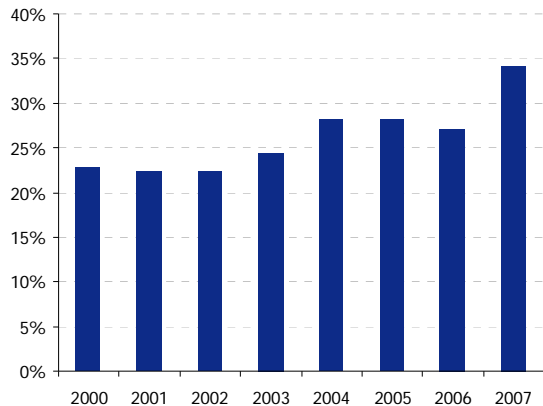
Share of Latam in Asian Major Commodity Imports (%)



Asia: China, India, Japan and Korea,
 Latam: Argentina, Brazil, Columbia, Mexico, Peru.
 Commodity: oil, ore, copper, aluminum, wheat, soybean, bovine
 Source: Comtrade.

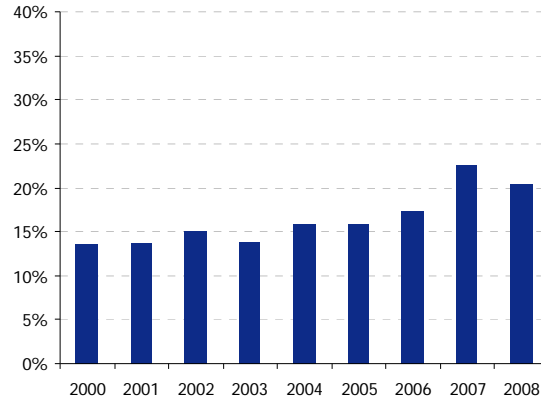
Asia is increasingly important for Chile followed by Peru and also, but more distantly, by Argentina and Brazil...

Weight of Asia in Chile Exports (%)



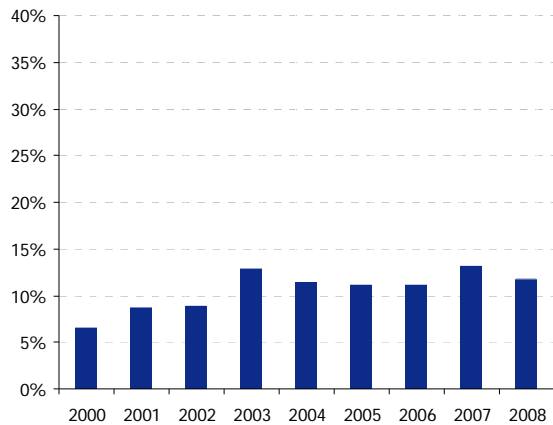
Source: COMTRADE. Asia: India, China, Korea and Japan.

Weight of Asia in Peru Exports (%)



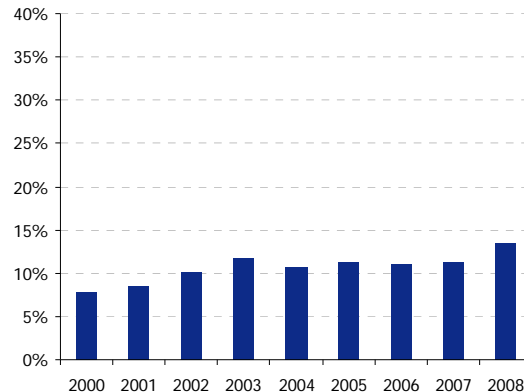
Source: COMTRADE. Asia: India, China, Korea and Japan.

Weight of Asia in Argentina Exports (%)



Source: COMTRADE. Asia: India, China, Korea and Japan.

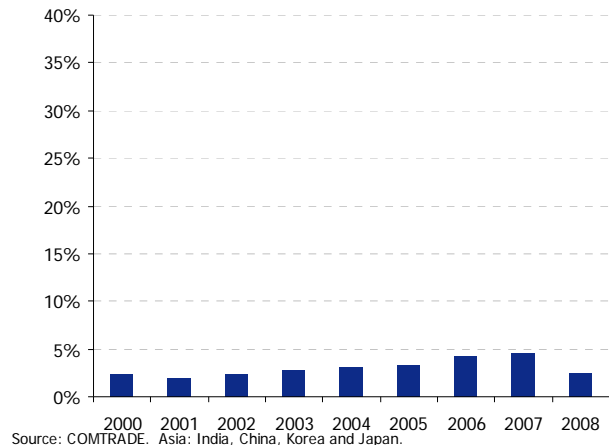
Weight of Asia in Brasil Exports (%)



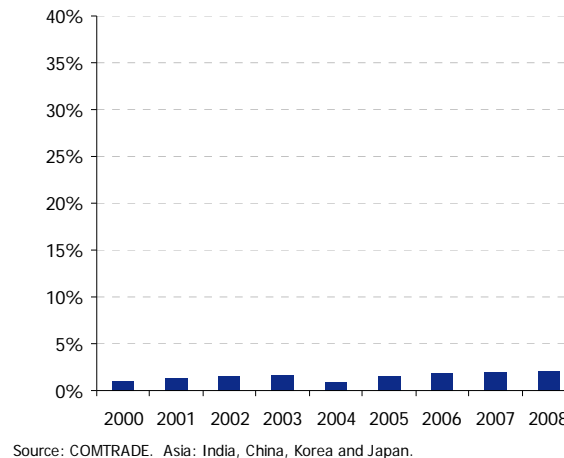
Source: COMTRADE. Asia: India, China, Korea and Japan.

but represents less than 5% of exports from Colombia, Mexico and Venezuela

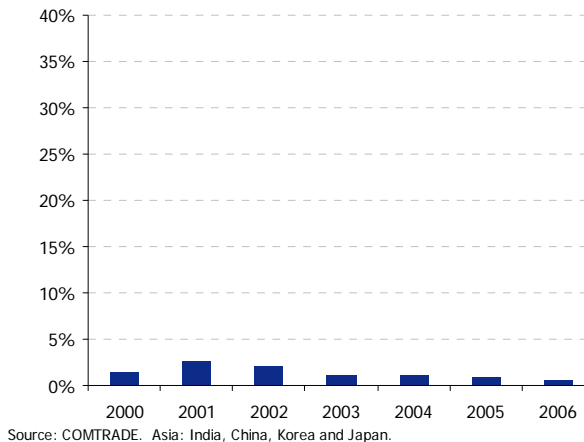
Weight of Asia in Colombia Exports (%)



Weight of Asia in Mexico Exports (%)

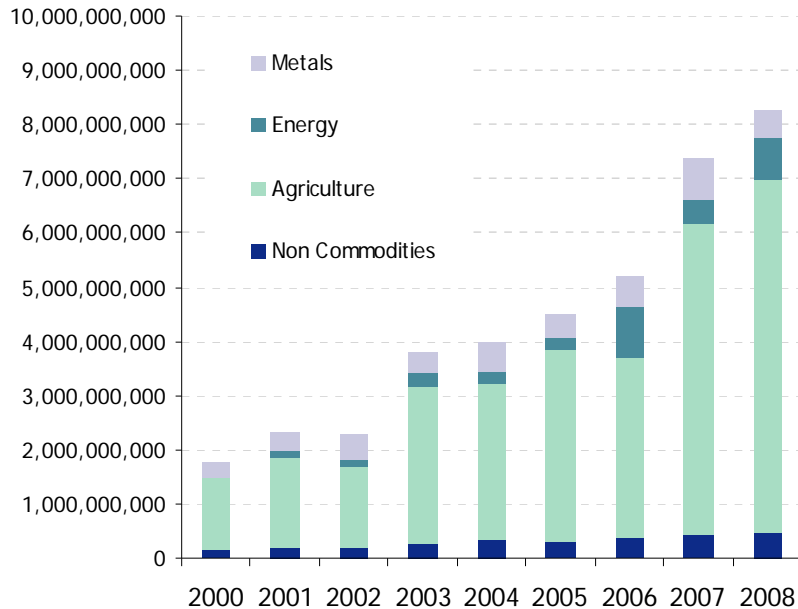


Weight of Asia in Venezuela Exports (%)



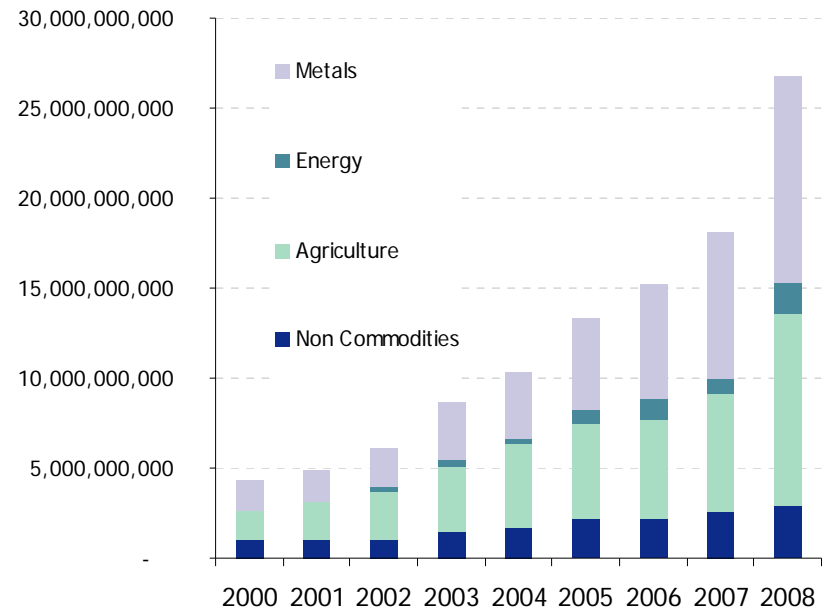
Brazil and Argentina have emerged as important suppliers of agriculture products to Asia. Metal exports from Brazil are gaining in importance

Total Exports from Argentina to Asia* (USD)



Source: CONTRADE. Asia: India, China, Korea and Japan.

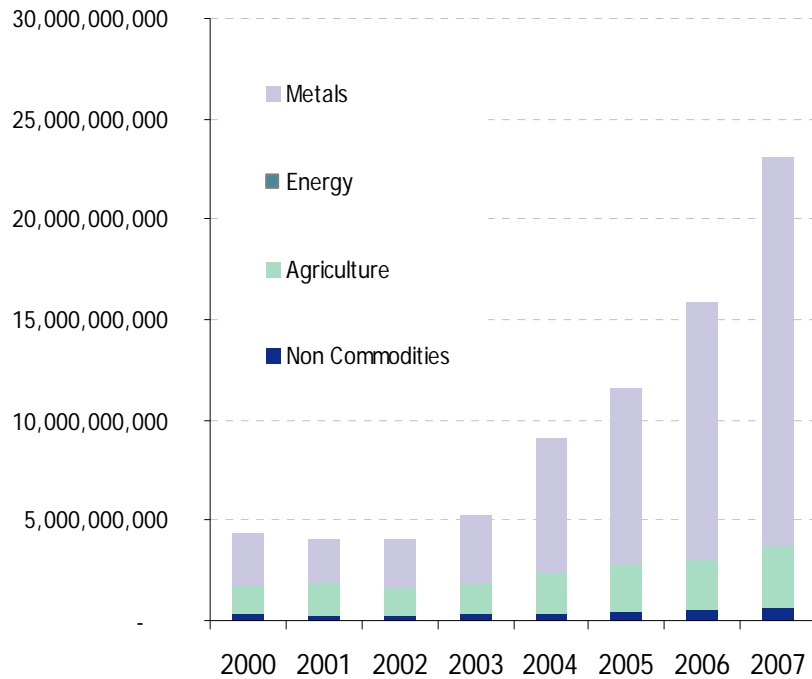
Total Exports from Brazil to Asia* (USD)



Source: CONTRADE. Asia: India, China, Korea and Japan.

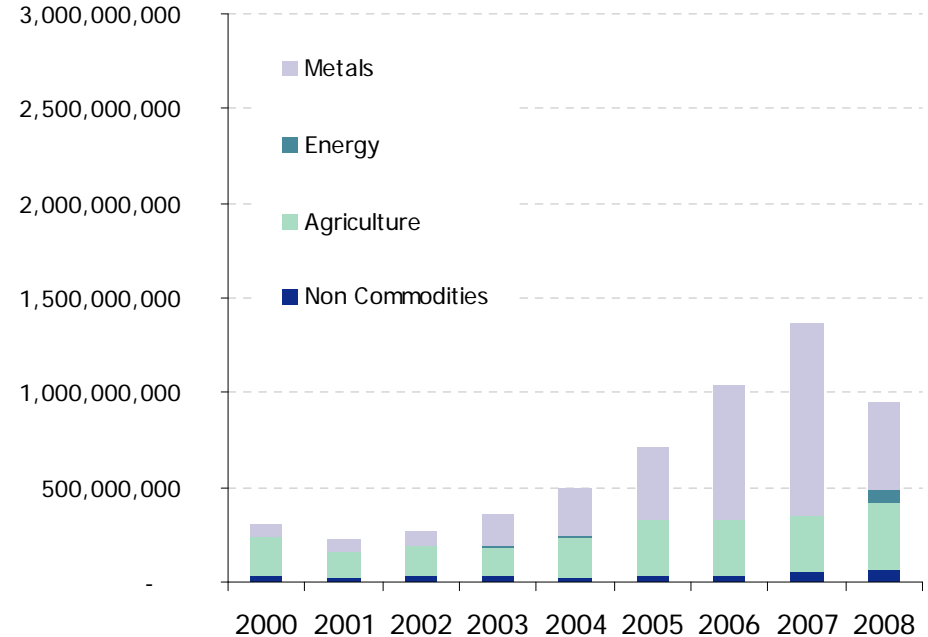
Chile and Colombia main exports to Asia are mostly metals. Non-commodity exports are negligible.

Total Exports from Chile to Asia* (USD)



Source: CONTRADE. Asia: India, China, Korea and Japan.

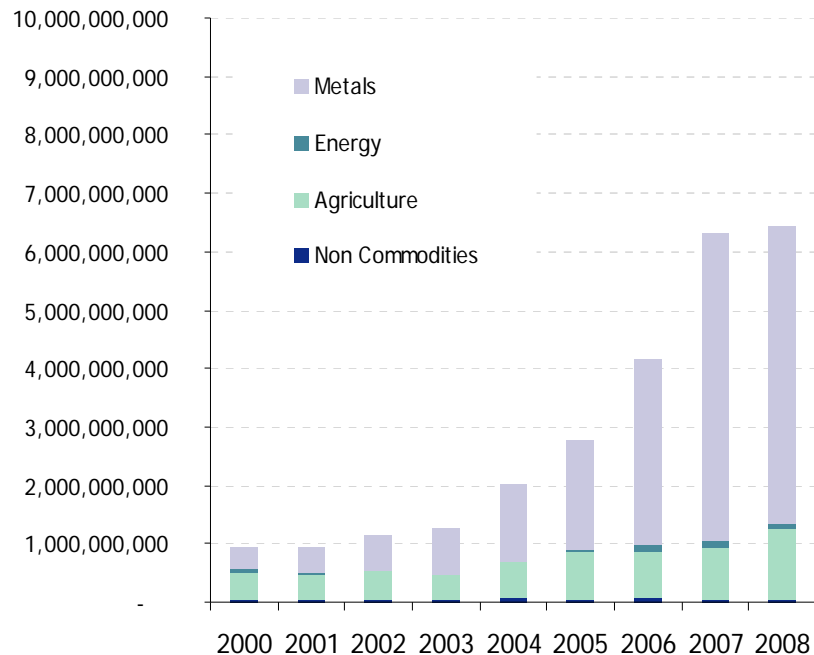
Total Exports from Colombia to Asia* (USD)



Source: CONTRADE. Asia: India, China, Korea and Japan.

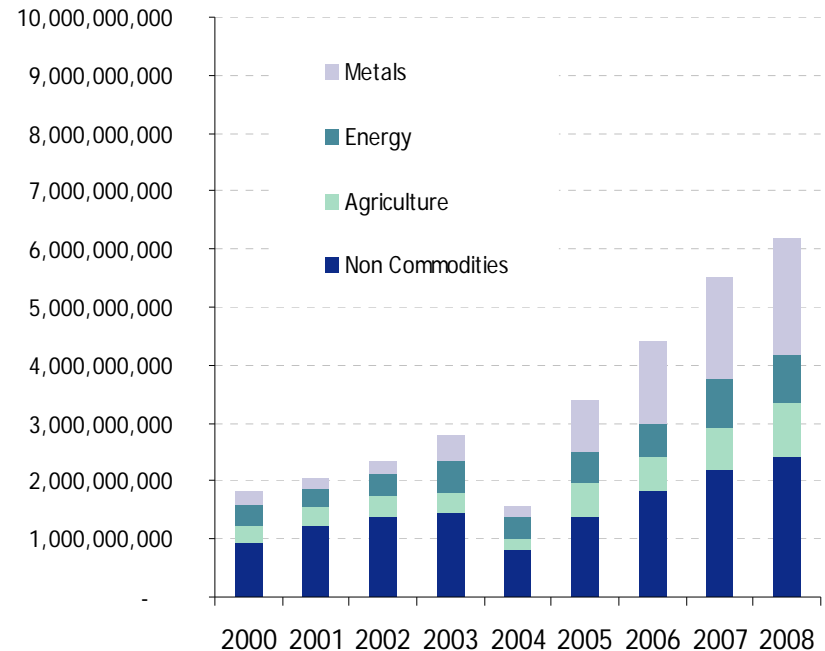
Peru's exports to Asia also consist of metals. Mexico, however, shows a more diversified export structure: it is the only country in Latam with a significant share of non-commodity exports.

Total Exports from Peru to Asia* (USD)



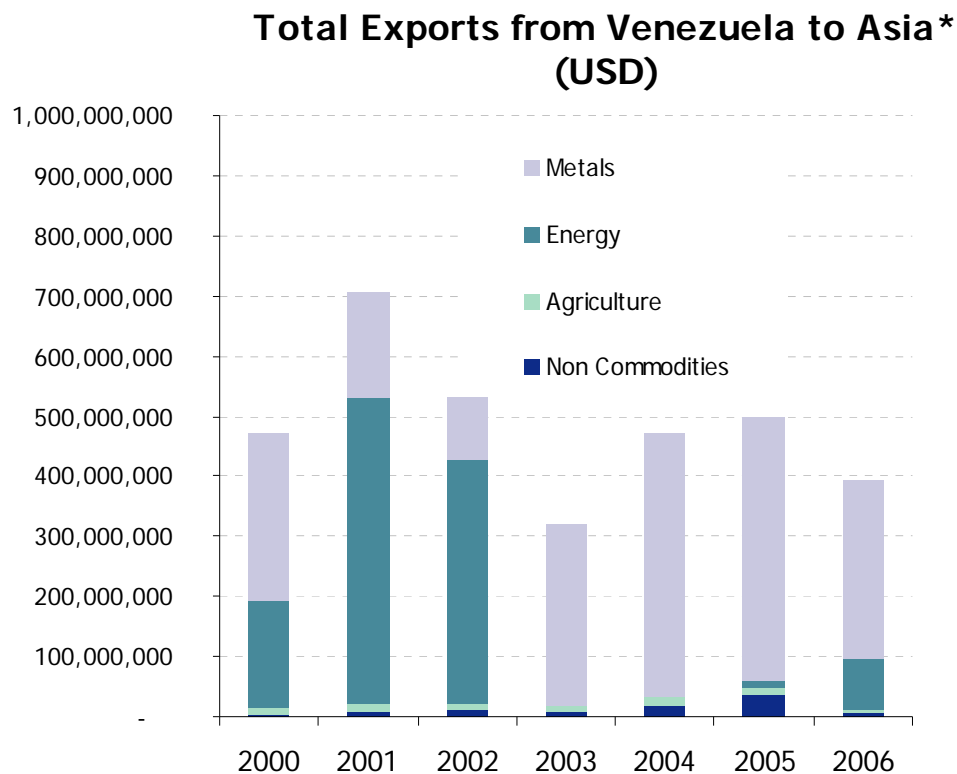
Source: CONTRADE. Asia: India, China, Korea and Japan.

Total Exports from Mexico to Asia* (USD)



Source: CONTRADE. Asia: India, China, Korea and Japan.

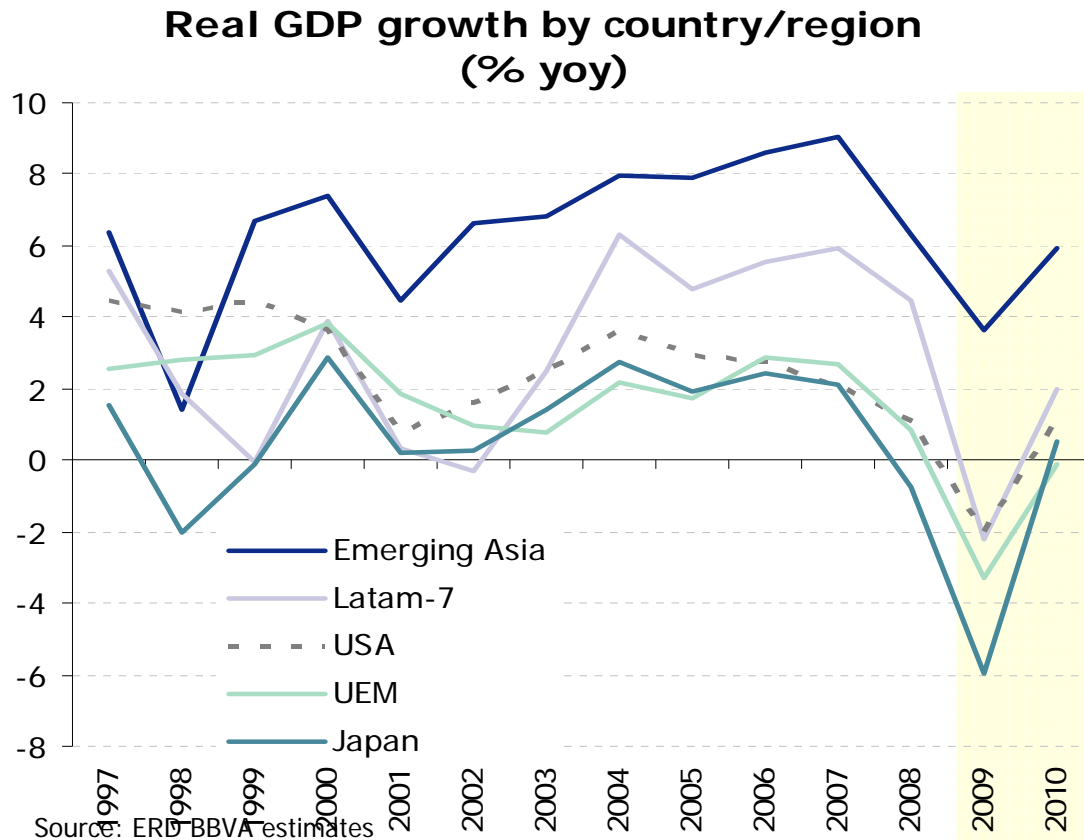
Venezuela has more volatile exports to Asia since it is mostly oil which fluctuate significantly (in value). Metals exports from Venezuela to Asia are more stable and gaining importance in bilateral trade.



Source: COMTRADE. Asia: India, China, Korea and Japan.

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3. **Prospects**
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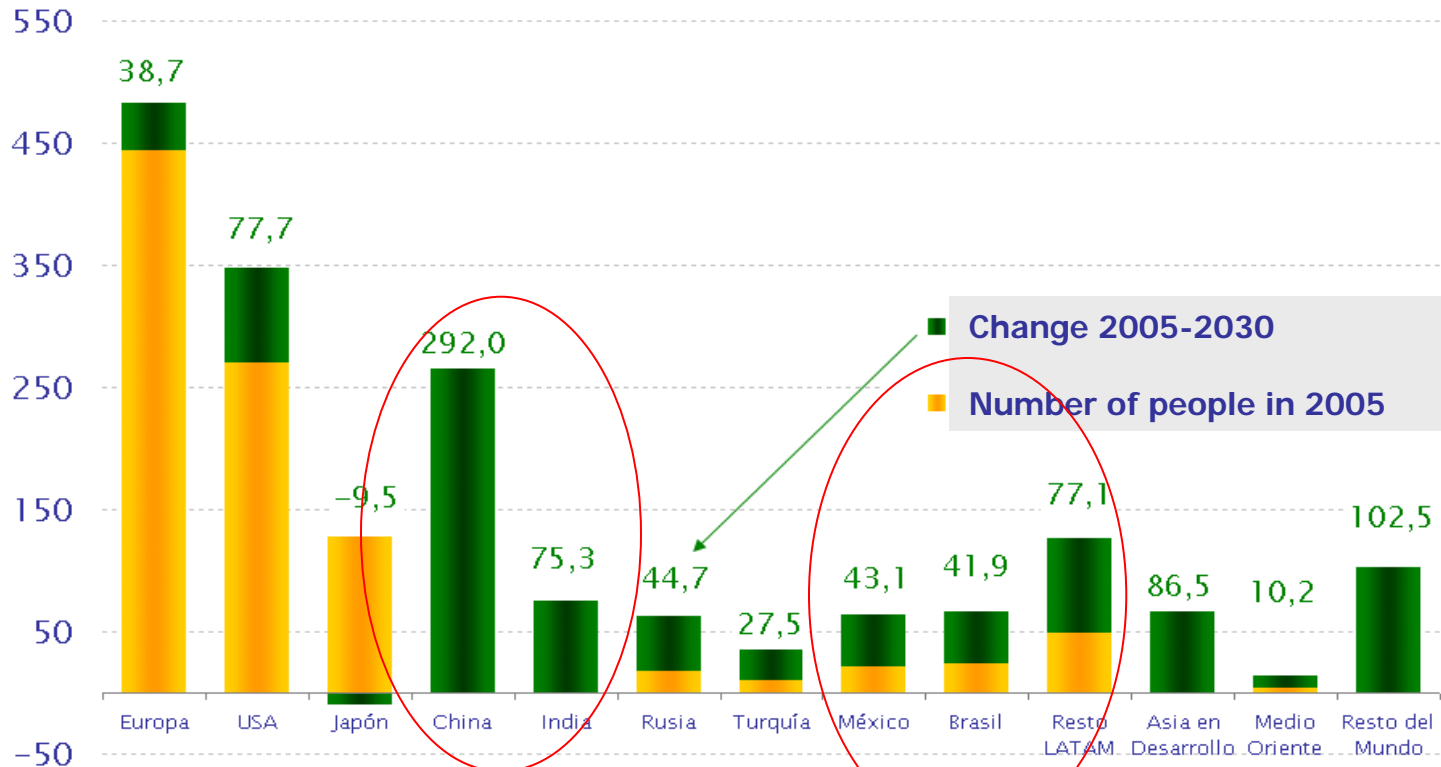
There is an immense potential for Asia-Latam trade to grow further in the future. The reasons are manifold: 1) the growth prospects in these two regions are more positive than in many other



Note: Emerging Asia includes China, Hong Kong, India, Indonesia, Korea, Malaysia, Philippines, Singapore, Taiwan and Thailand; Latam-7 includes Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela

2) From now till 2030 most of the people entering into the middle class will be in Asia or Latam (with higher propensity to import that poorer population)

Number of people in middle class in 2030
(Million people with annual income exceeding U.S. \$ 9600)



3) Asia–Latam regions can still benefit from easier access in terms of new trade agreements

Signed agreements:

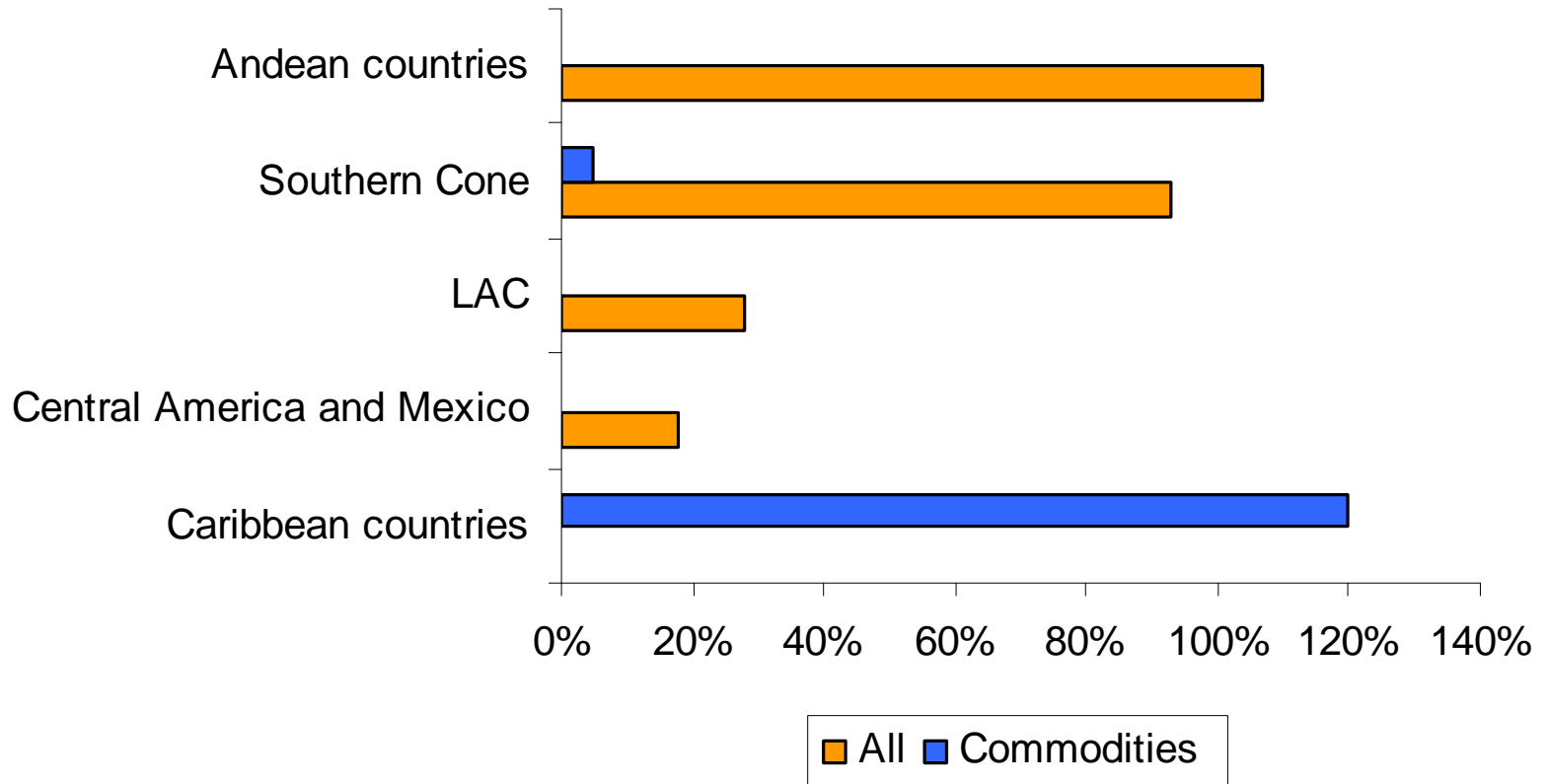
- Chile and China
- Peru and China
- Colombia and China
- Singapore and Chile
- Singapore and Panama

Under negotiation:

- Malaysia and Chile
- Singapore and Mexico
- Singapore and Peru
- Thailand and Peru
- Vietnam and Chile
- Costa Rica and China

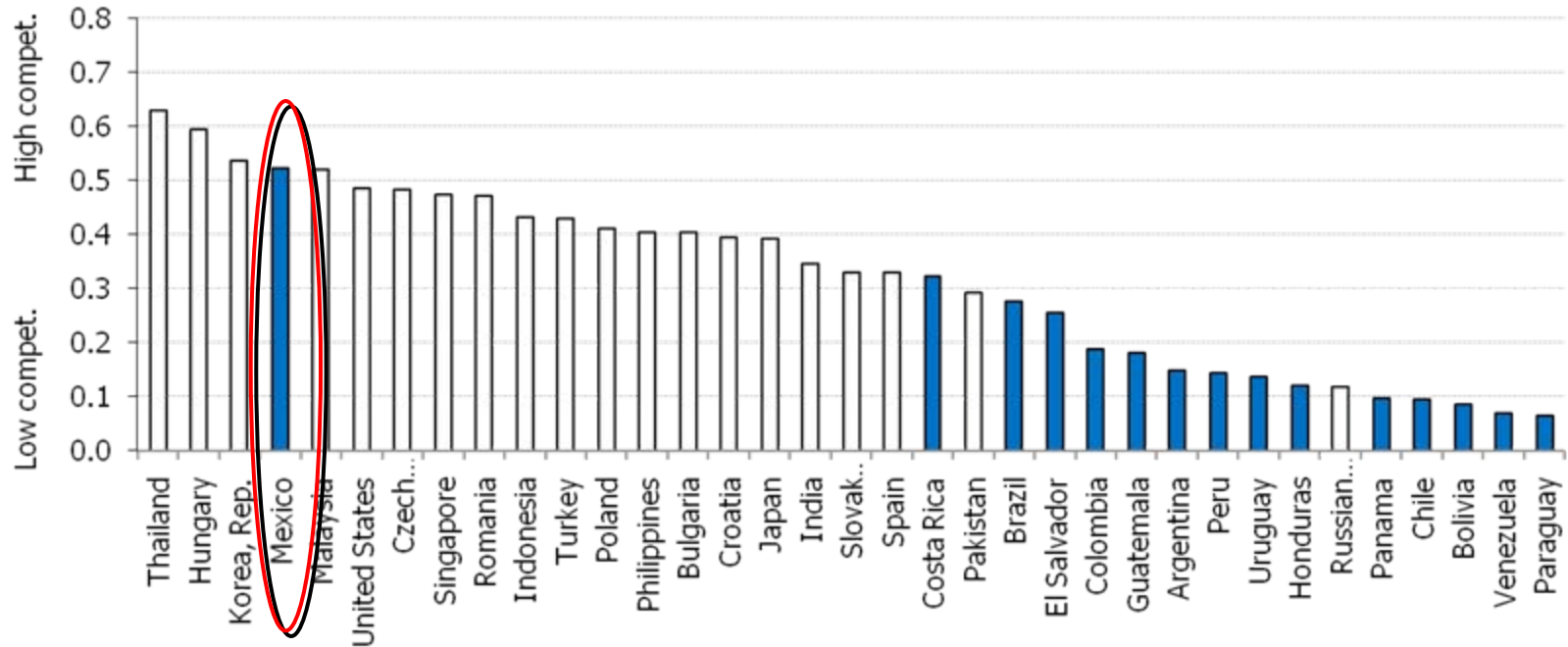
4) Still many trade opportunities untapped...

**Unsatisfied Chinese demand for Latam products
(as share of bilateral Latam exports)**



...thanks to a high complementary rather than competitive export structure, except for Mexico

Export competition with China for selected countries (2000-2005)

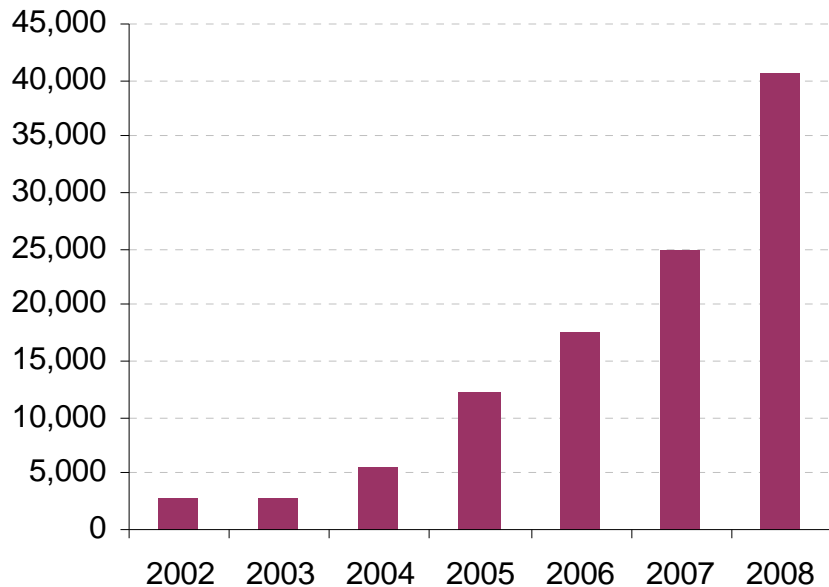


Note: CS and CC coefficients calculated with exports of country *i* and exports of country *j* (China, India).

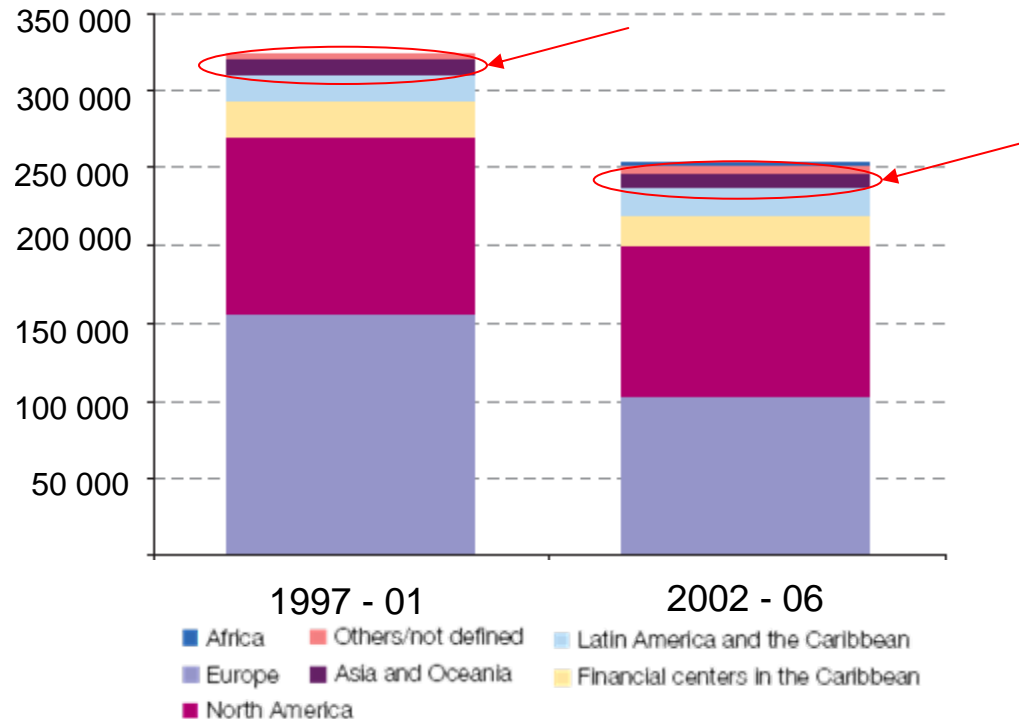
Source: OECD Development Centre, 2008; based on WITS Database, 2007.

5) FDI opportunities may help boost trade. China's FDI into Latin America grew 80% per year since 2003, but it is still low and there are huge room to increase...

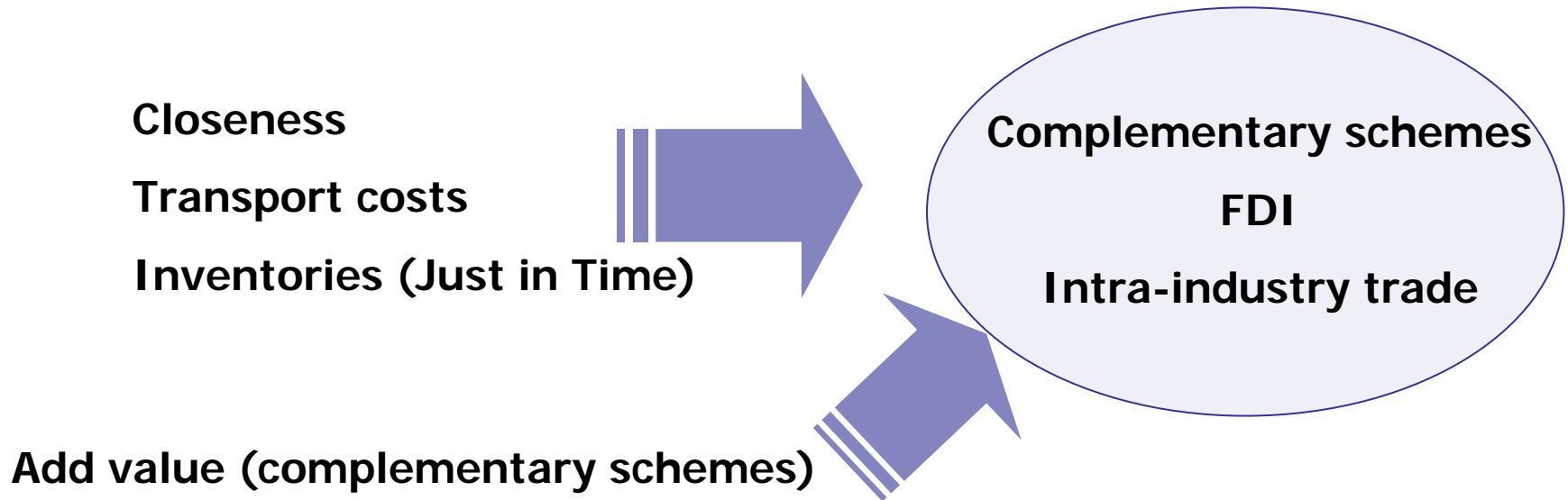
Chinese FDI into Latin America (non-finance sector)
(US\$ millions)



Latin America's inward FDI, 1997-2001 vs 2002-2006
(stock in US\$ millions)



As Latin America could exploit its geographical proximity to the North American market to attract Asian FDI...

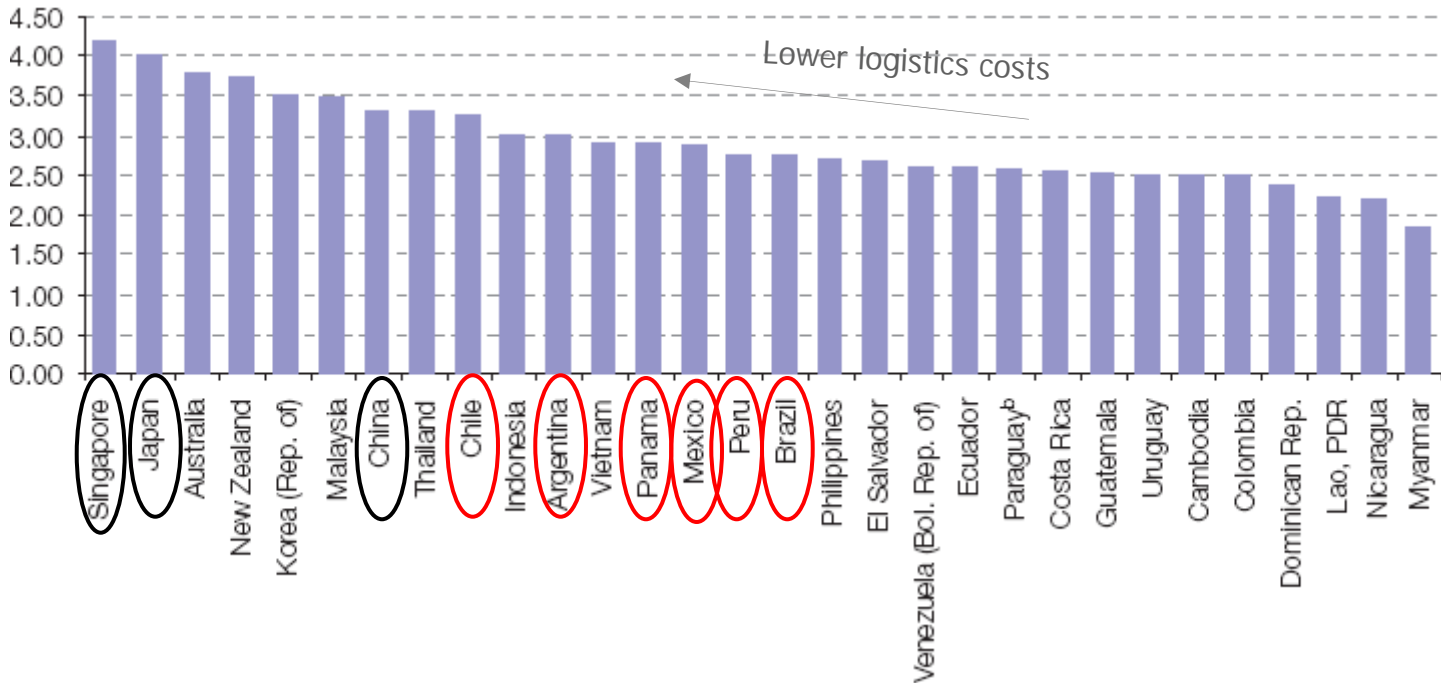


In order to attract FDI, Latin American countries still has much work to do in improving their institutions and infrastructure

Latin America is and will continue to be an important market for Asia leveraging on export diversification and provision of services.

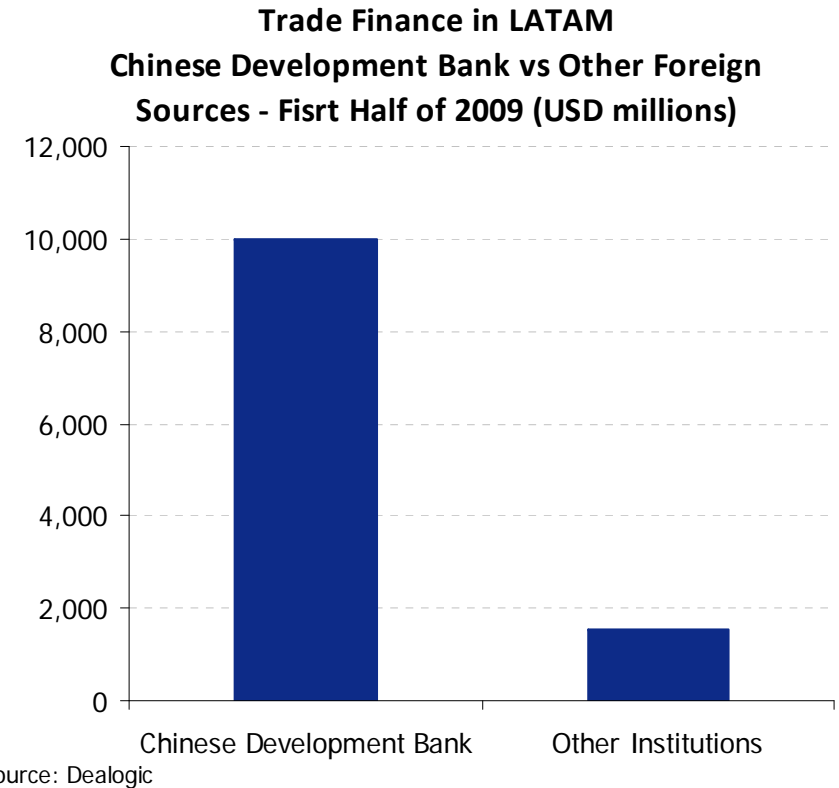
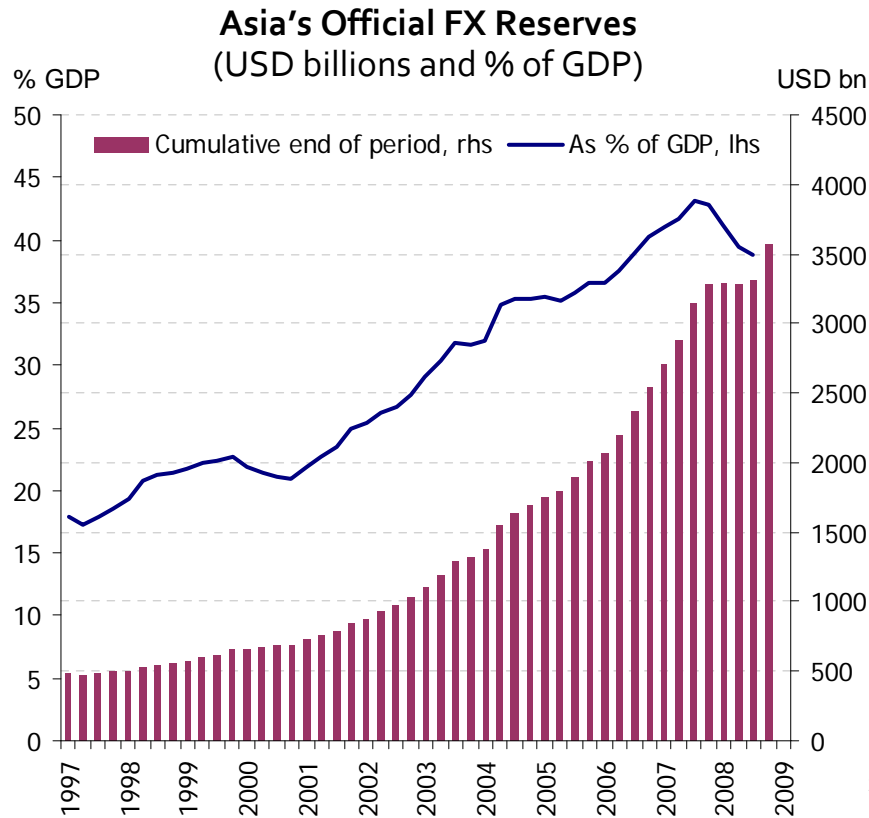
... which will require Latin America to significantly improve its trade logistics in order to lower re-export/transit costs

**Logistics performance index
(score in the range of 0-5)**



Source: ERD BBVA, ECLAC (2008), World Bank (2007)

6) Increasing financial integration between the two regions should also help develop trade. Japan and, since recently also China, has been funded investment projects in Latam (sometimes in exchange of guaranteed supply in the future sometimes for profitability reasons)



1. The role of Asia and Latin America in international commodity markets
2. The evolution of trade between Asia and Latin America
3. Perspectives
4. **Conclusions**

- Asia and Latin America have clear **complementary roles** in endowments, which is increasingly reflected in growing trade relations
- The relative scarcity of natural resources, made more acute by rapid urbanization, has made **Asia** into an important **commodity importer**.
- **Latin America** 's endowment is such that **commodity exports** constitute their natural comparative advantage. From being curse in the past, commodities are now turning extremely useful for Latin America's growth thanks to Asia's insatiable and, probably stable, appetite for commodities.
- Based on these well-defined roles in commodity markets, Asia and Latin America are becoming **important trade partners**. However, there is still ample room to benefit from a deeper and more comprehensive economic integration –specially in **FDI** but also in **financial investment**, given the large untapped opportunities.

**Comments
welcome**

Thank you!

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