

9th Annual

Structured Trade and Export Finance Asia Pacific Conference

第九届亚太区结构性贸易和出口融资年会



**Macroeconomic focus on Asia's place in the global
trade and export market**

Stephen Schwartz , Chief Economist for Asia, BBVA

9th Annual **Structured Trade and Export Finance Asia Pacific** conference

第九届亚太区结构性贸易和出口融资年会



Contents

May 2010

1. Asian trade flows: some structural facts

- International trade is increasingly driven by emerging market and Asian dynamism
- The role of supply chains are becoming more important
- High-tech products are becoming more important in Asian trade
- Inter-regional trade is important: Brazil-China trade

2. Recent developments in world trade: Asia leads the recovery

- The collapse in world trade during 4Q08 and 1Q09
- Main determinants of trade flows
- Our forecast of international trade

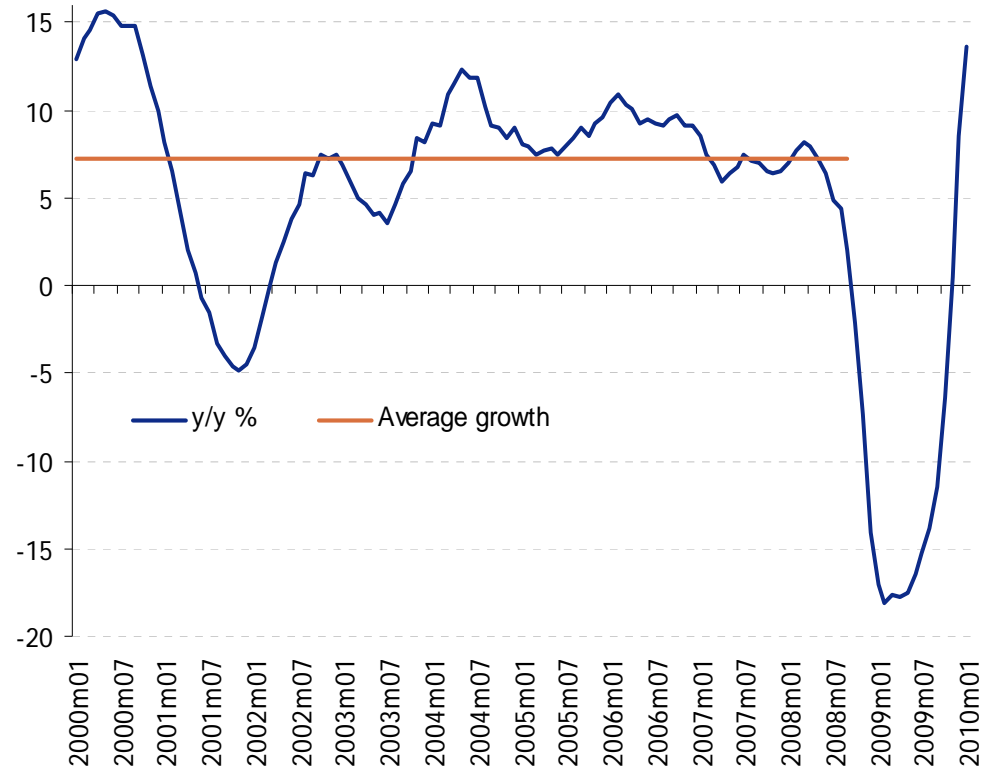
9th Annual Structured Trade and Export Finance Asia Pacific conference

第九届亚太区结构性贸易和出口融资年会



World trade, 2000-10

World trade growth in the 2000's (y/y %)



Source: BBVA

World trade over the past decade has been characterized by strong growth up to the collapse in Q4 2008.

Since then, world trade has rebounded sharply as the global economy recovers and as inventories are rebuilt.

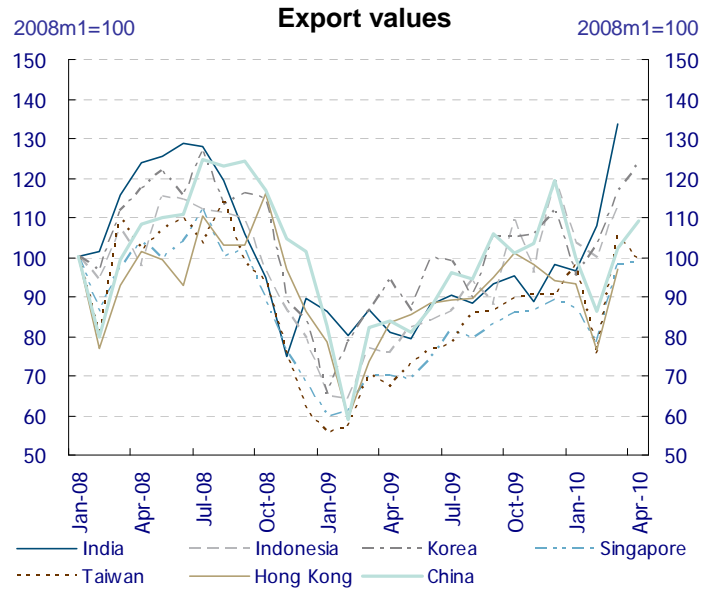
9th Annual Structured Trade and Export Finance Asia Pacific conference

第九届亚太区结构性贸易和出口融资年会



Asia has been leading the global recovery

- Rising growth momentum in Asia has been led by policy stimulus and external demand, with domestic demand now also playing a large role
- Exports values are near or above pre-crisis levels

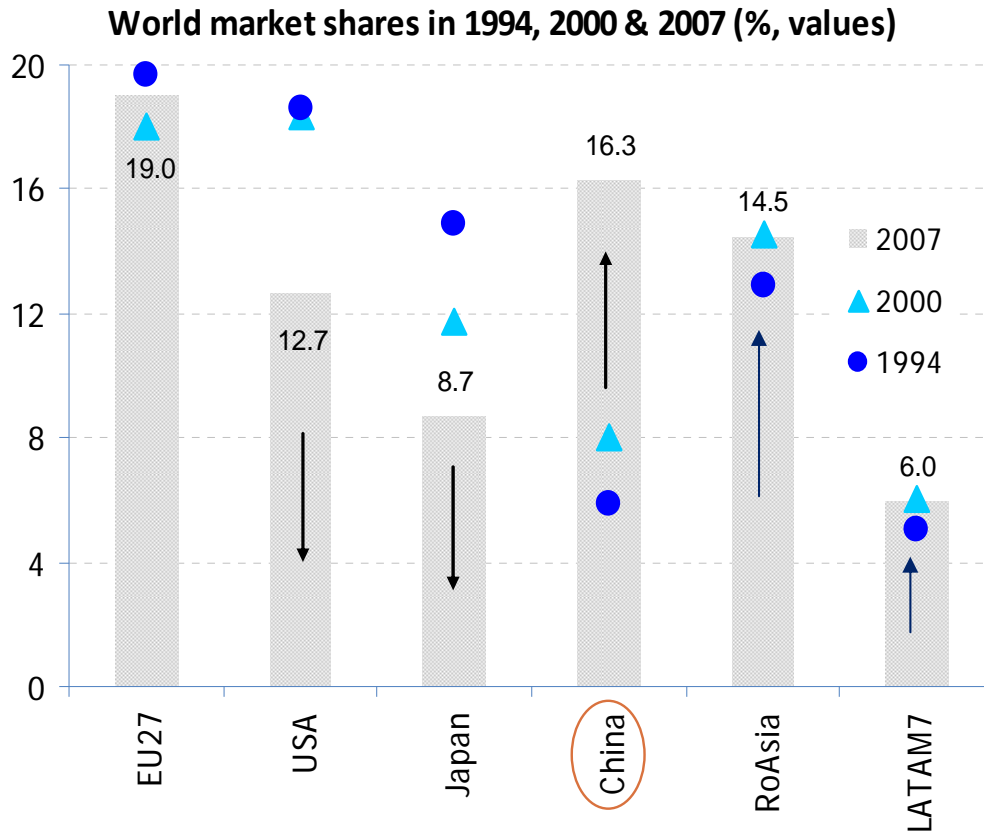


9th Annual Structured Trade and Export Finance Asia Pacific conference

第九届亚太区结构性贸易和出口融资年会



Emerging markets, and Asia in particular, have been driving the growth of global trade



International trade is today driven by the dynamism of developing and emerging market economies. China, in particular, has been gaining market share.

Source: BACI datasets (intra-EU and energy excluded). Rest of Asia includes ASEAN, India and Korea.

9th Annual Structured Trade and Export Finance Asia Pacific conference

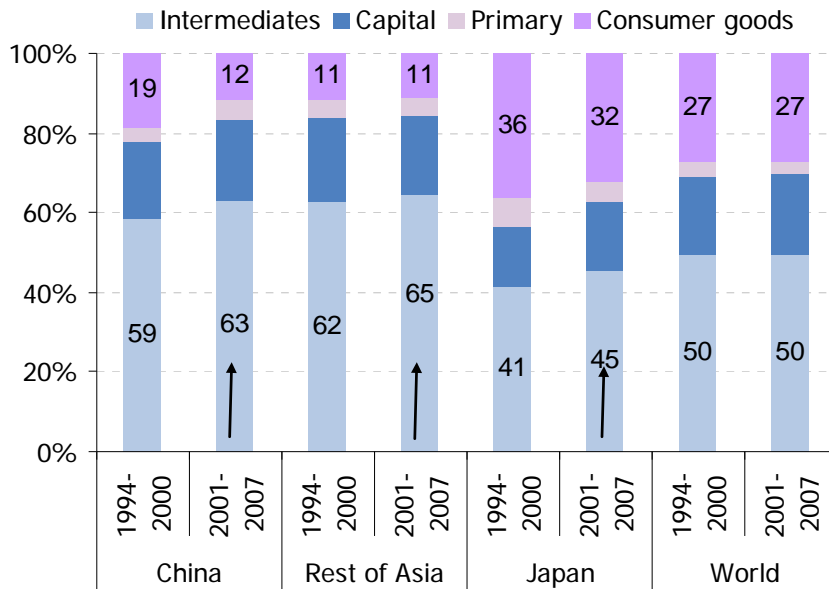
第九届亚太区结构性贸易和出口融资年会



Asian trade: regionally specialized production

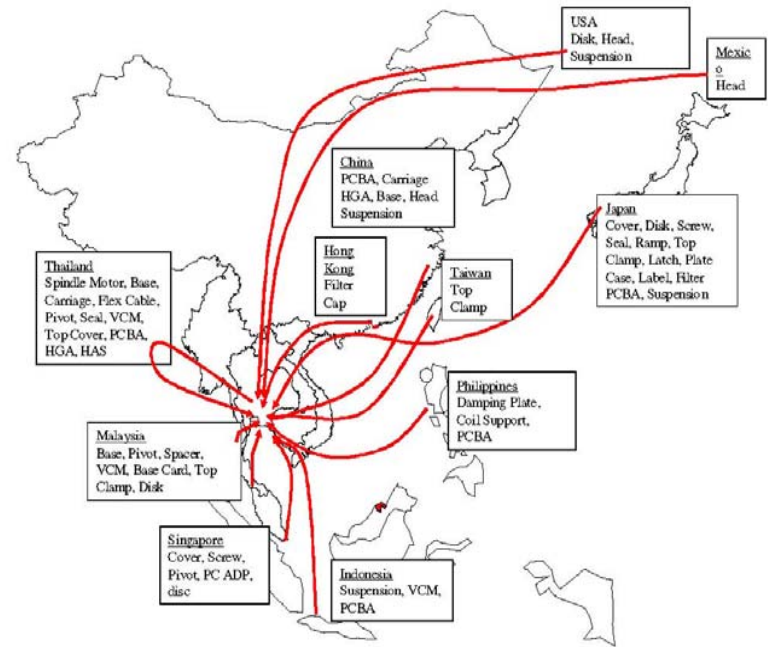
May 2010

Imports by stage of production



Source: BBVA Research using BACI data.

The figure shows the nations where parts are sourced for a hard-disk drive assembled in Thailand.



Source: Baldwin (2008) based on data adapted from Hiratsuka (2005).

Asia is the most dynamic region in terms of integrated supply chains. This can especially be seen in imports, which are concentrated in **intermediates and capital goods**.

9th Annual Structured Trade and Export Finance Asia Pacific conference

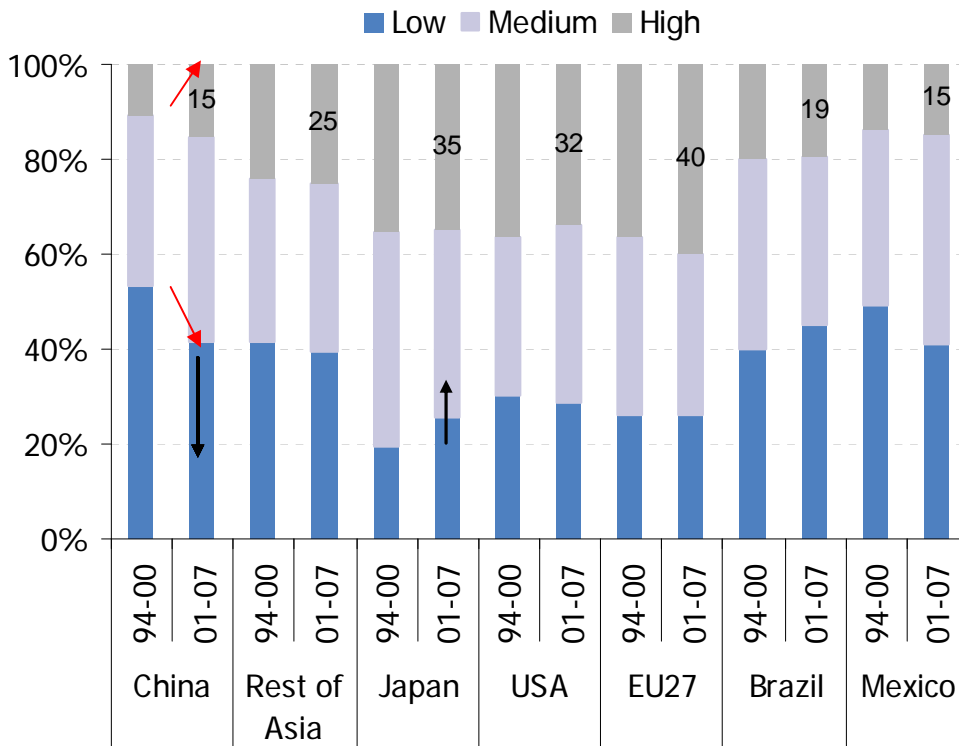
第九届亚太区结构性贸易和出口融资年会



Asian export specialization: quality upgrading

May 2010

Structure of exports by market segments



Source: ERD/BBVA using BACI data. Market segments are defined in function of the world distribution of unit values at the bilateral and product level.

- Emerging economies are specialized in the low-market segments, whereas advanced economies are relatively specialized in up-market varieties (high-end products make up a larger share of total exports; 40% in Europe for example)
- But this is changing. In China, for example, specialization in low-end products was higher in the 1990s than in this decade with a -9 pp change between the two sub-periods; and the share of high-end products is increasing.

9th Annual Structured Trade and Export Finance Asia Pacific conference

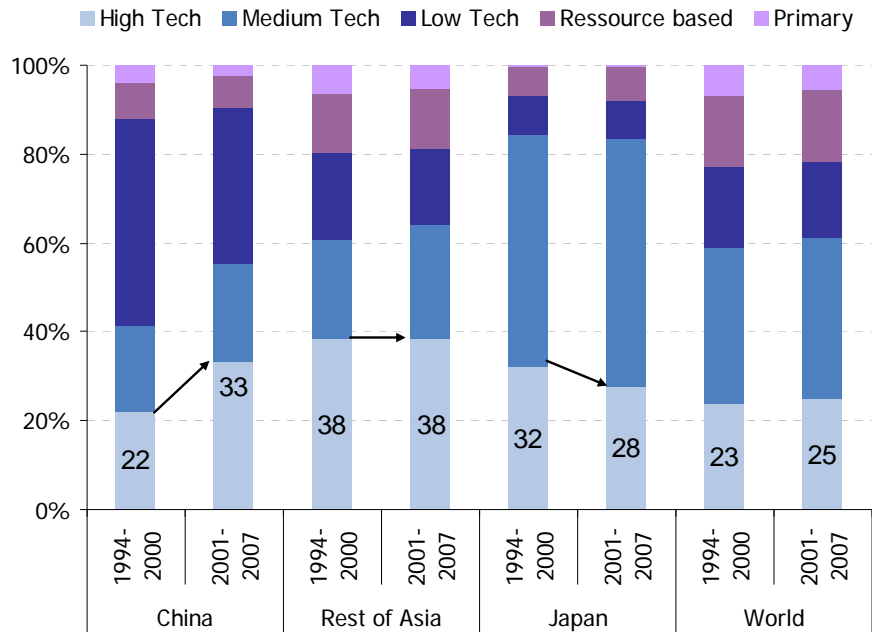
第九届亚太区结构性贸易和出口融资年会



Asian trade specialization: technological upgrading

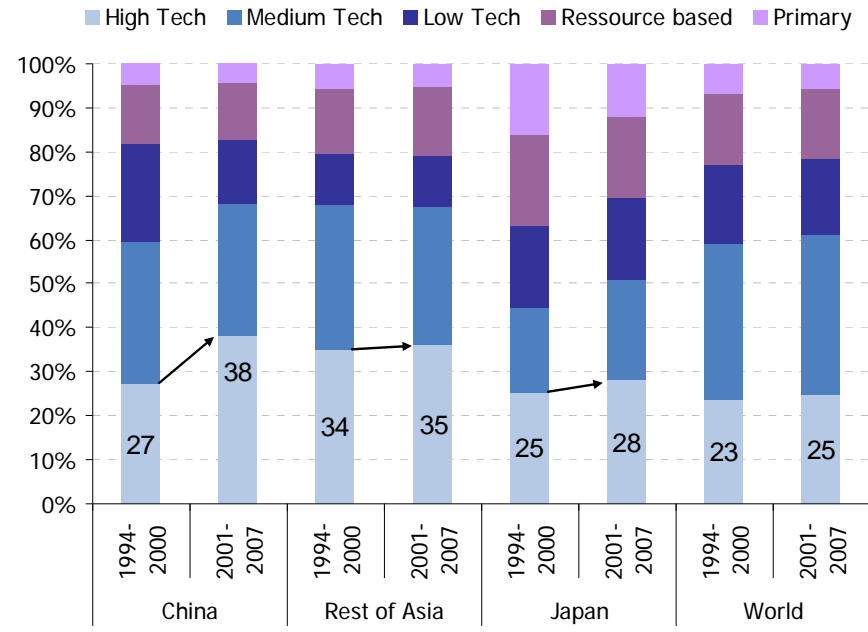
May 2010

Exports by technology level



Source: ERD/BBVA using BACI data.

Imports by technology level



Source: ERD/BBVA using BACI data.

The weight of high-tech manufactures is increasingly important in Chinese trade and is on par now with the Rest of Asia.

9th Annual Structured Trade and Export Finance Asia Pacific conference

第九届亚太区结构性贸易和出口融资年会



Inter-regional trade: Brazil-China trade relations

May 2010

International Trade - Brazil and China



Source: BBVA; COMTRADE

Participation in Total Exports and Imports



Source: COMTRADE

Trade relations between Brazil and China have boomed in recent years:

- 25% yearly growth in the 1992-2007 period
- Brazilian exports to China as a share of total exports surged from 2.4% in 1992 to 7.5% in 2007.

9th Annual Structured Trade and Export Finance Asia Pacific conference

第九届亚太区结构性贸易和出口融资年会

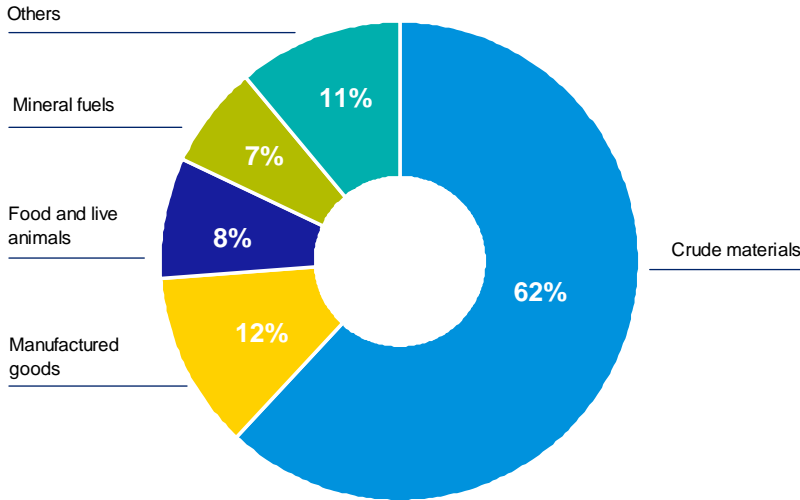


Brazil-China trade relations: competition vs complementarity

May 2010

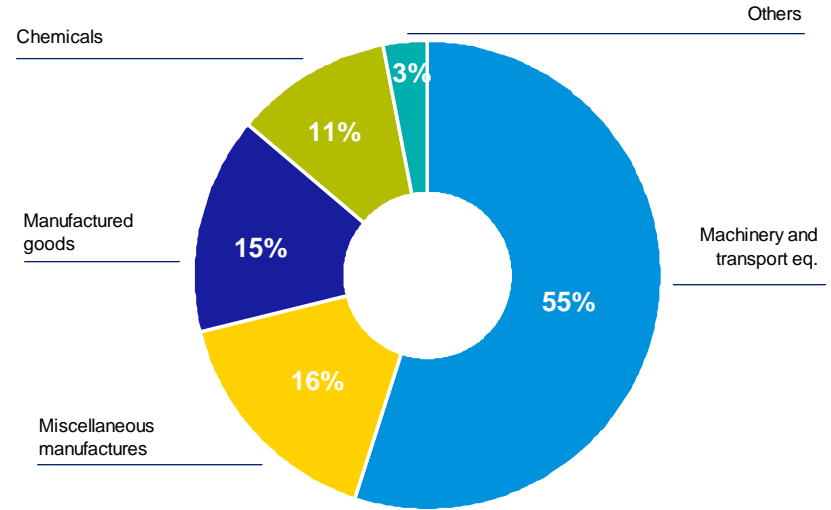
Brazilian Exports to China in 2007 (1 digit)

Source: COMTRADE



Chinese Exports to Brazil in 2007

Source: COMTRADE



Trade flows between Brazil and China exhibit complementarities:

- Brazilian exports to China are mainly of commodities, relatively concentrated in iron ores and soybeans
- China's exports to Brazil are concentrated in manufactured products

9th Annual **Structured Trade and Export Finance Asia Pacific** conference

第九届亚太区结构性贸易和出口融资年会



Contents

May 2010

1. Asian trade flows: some structural facts

- International trade is increasingly driven by emerging market and Asian dynamism
- The role of supply chains are becoming more important
- High-tech products are becoming more important in Asian trade
- Inter-regional trade is important: Brazil-China trade

2. Recent developments in world trade: Asia leads the recovery

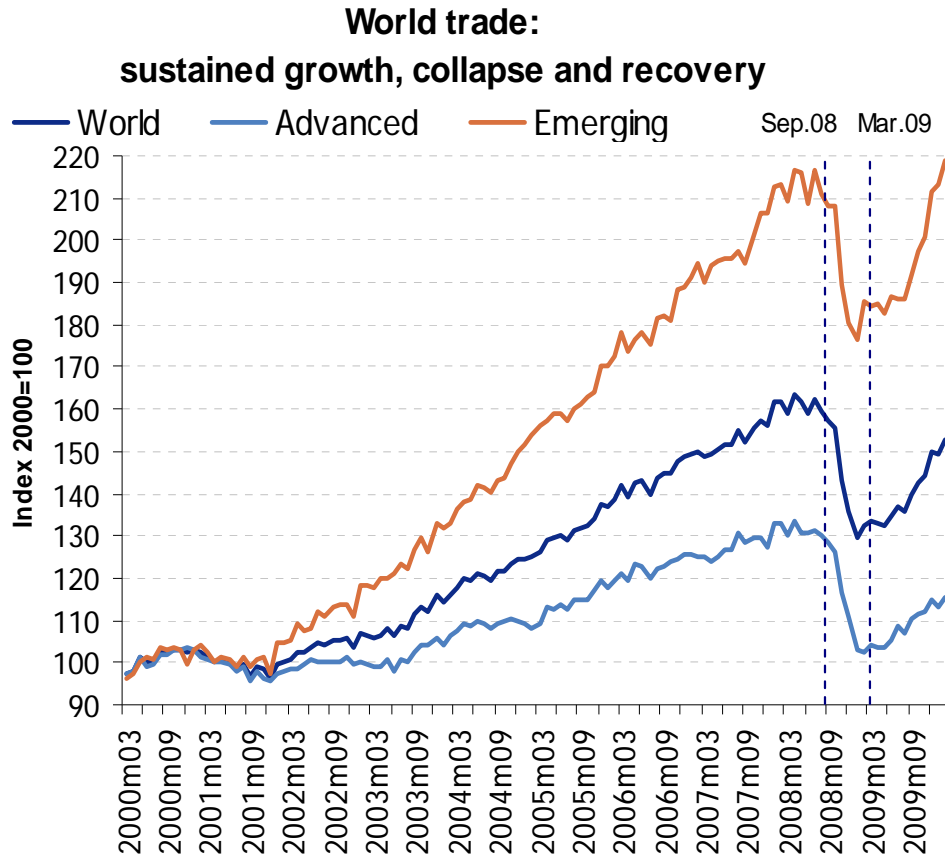
- The collapse in world trade during 4Q08 and 1Q09
- Main determinants of trade flows
- Our forecast of international trade

9th Annual Structured Trade and Export Finance Asia Pacific conference

第九届亚太区结构性贸易和出口融资年会



The collapse in world trade during 4Q08 and 1Q09



- The collapse in world trade volume in the last quarter of 2008 (-15%) was **sudden, severe and synchronized** (across countries and sectors).
- **The recovery is underway.** All indicators are positive in Q409, 3 quarters of q/q positive growth.

Source: BBVA Research using CPB data.

9th Annual Structured Trade and Export Finance Asia Pacific Conference

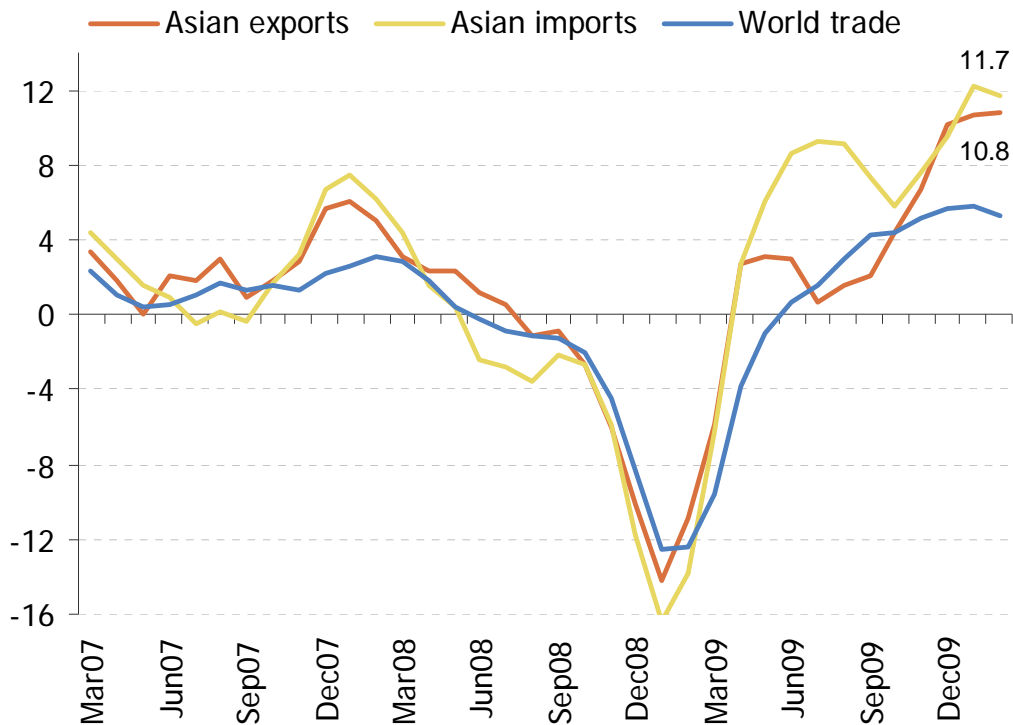
第九届亚太区结构性贸易和出口融资年会



Asia is leading the recovery

Asian and world trade growth

(% q/q change over last 3 months)



Source: BBVA Research using CPB datasets.

- Clear recovery across emerging economies led by Asia.
- The crisis has reinforced key trends observed in international trade in the last two decades: **in 2009 emerging economies are the major actors in terms of export volumes, especially Asia with a 33.3% world market share.**

9th Annual Structured Trade and Export Finance Asia Pacific conference

第九届亚太区结构性贸易和出口融资年会

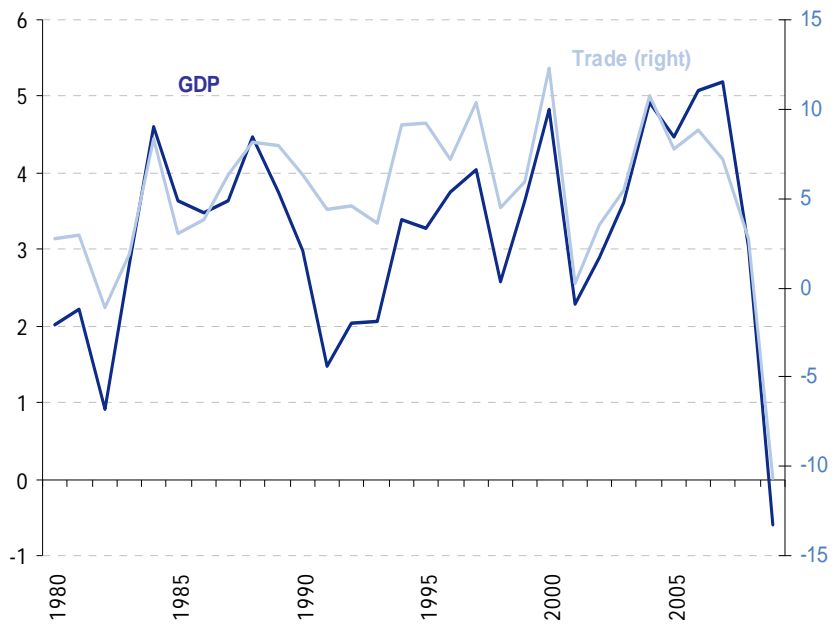


Main driver of trade flows: the demand

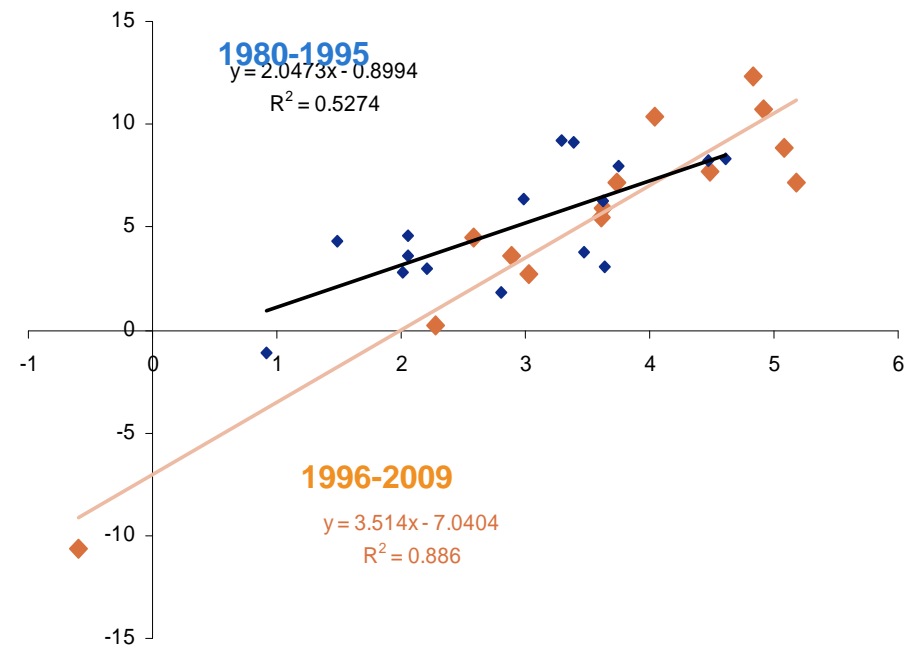
Trade is mainly determined by demand and is typically **procyclical**.

Elasticity of world trade to world income has been increased over the time.

World GDP and trade growth yoy



GDP AND TRADE GROWTH



9th Annual Structured Trade and Export Finance Asia Pacific conference

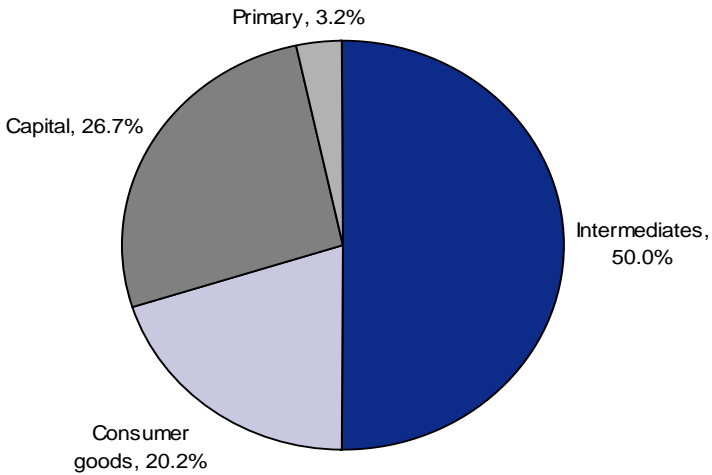
第九届亚太区结构性贸易和出口融资年会



May 2010

Composition effect explains the over-reaction of trade

World trade by stage of production (excluding oil, 2006)



Source: Author calculation using BACI datasets and BEC classification.



Today, chains of production are so **internationally fragmented** that the products or their components have to pass through various borders before reaching the end consumer => **Intermediates and capital goods represent more than ¾ of world trade**

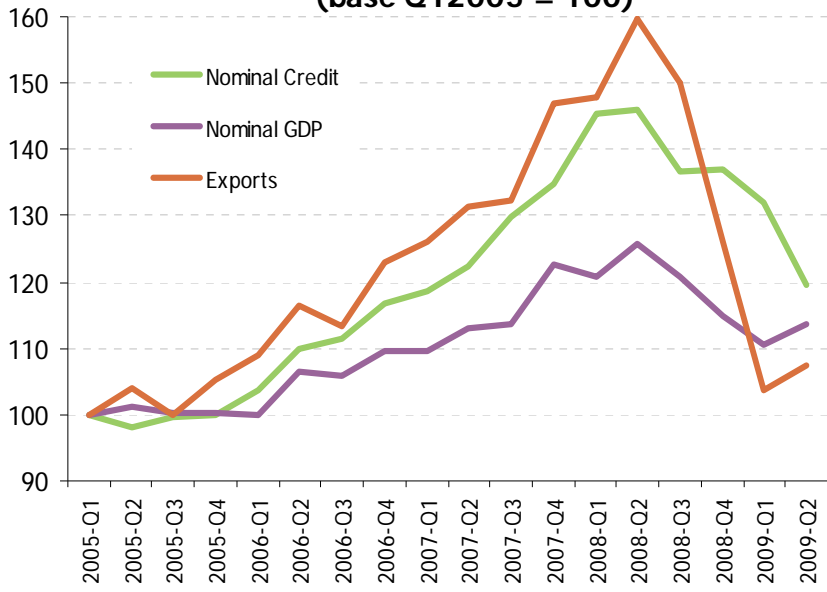
9th Annual Structured Trade and Export Finance Asia Pacific conference

第九届亚太区结构性贸易和出口融资年会



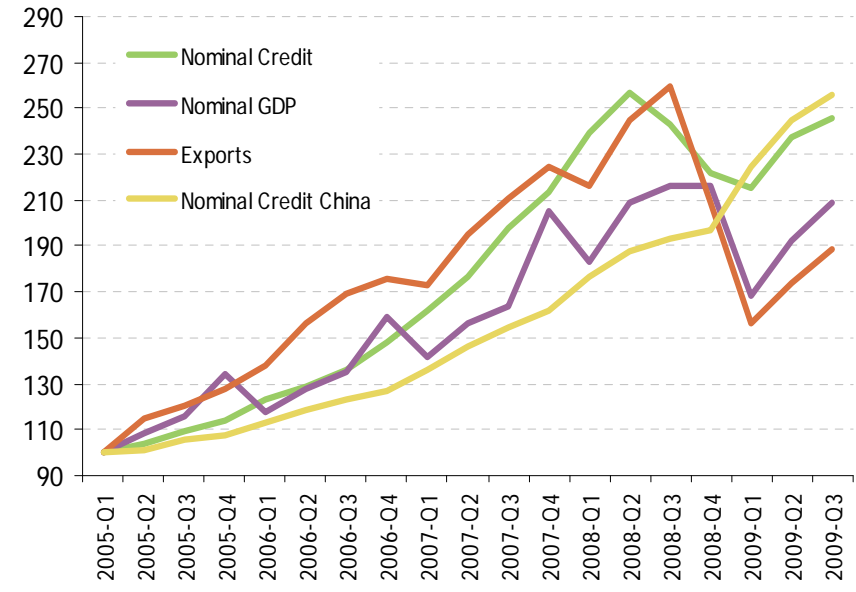
The credit channel

Advanced Economies GDP, Exports and Credit (base Q12005 = 100)



Source: IFS, United Nations and BBVA

Emerging Economies GDP, Exports and Credit (base Q12005 = 100)



Source: IFS, United Nations and BBVA

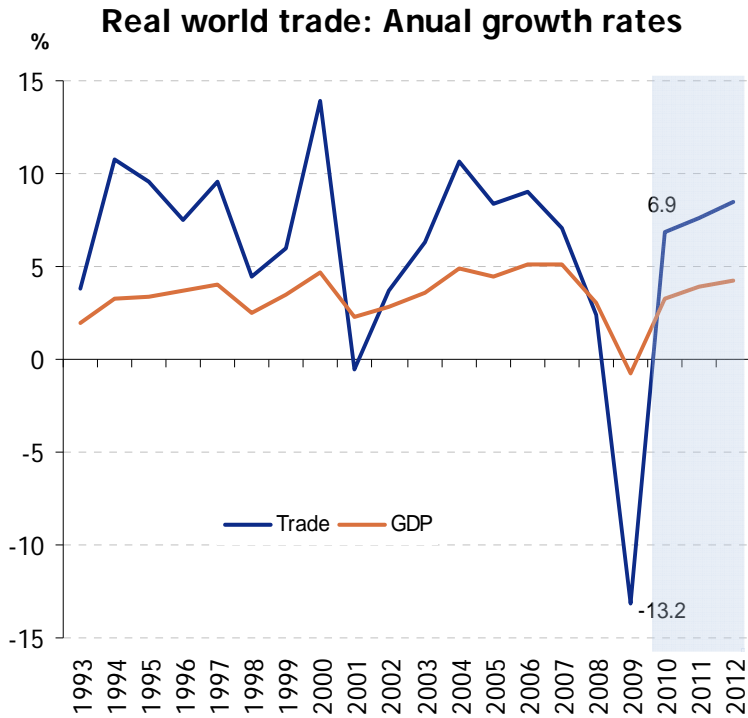
Financing restrictions could be an additional source to have impacted trade flows, not only because the scarcity in trade finance and higher associated costs but mostly because the **composition of trade makes it more sensitive to credit restrictions than global output.**

9th Annual Structured Trade and Export Finance Asia Pacific conference

第九届亚太区结构性贸易和出口融资年会



Our projection for world trade



Source: BBVA Research.

We estimate an econometric model for world trade

- We project world trade will grow around 7% in 2010 (in the lower bound of the range).
- 2008 world trade levels should be attained in 2011.

Projections for world trade growth				
	WTO	IMF/WEO	WB/GEP	CPB
	26-Mar-10	Apr-10	Jan-10	Dec-09
2010	9.5%	7.0%	4.3%	9%
2011	9.5%	6.1%	6.2%	..

9th Annual **Structured Trade and Export Finance Asia Pacific** conference

第九届亚太区结构性贸易和出口融资年会



Two conflicting forces leading the world economy

Positive spillover from the cyclical upturn in the US and in the emerging markets



- **Growth**
- **Commodity prices**
- **International trade**



Negative spillover from the increase in risk premium spreading from Europe



- **Risk premium**
- **Fiscal consolidation**
- **Confidence**



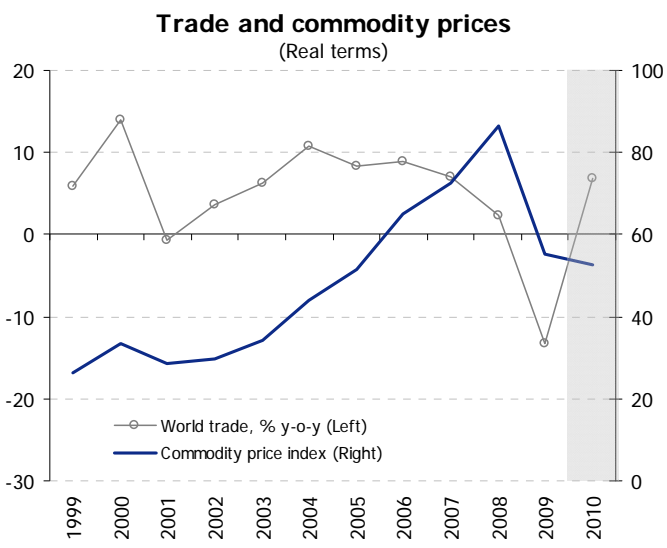
9th Annual Structured Trade and Export Finance Asia Pacific conference

第九届亚太区结构性贸易和出口融资年会

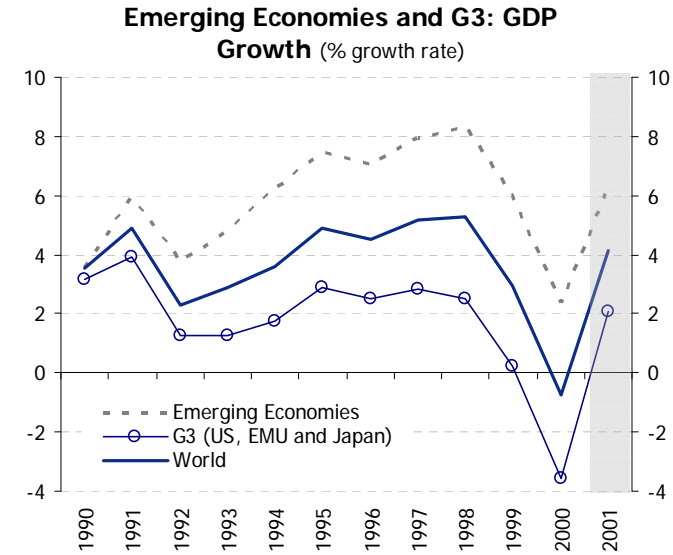


Two conflicting forces leading the global economy

Positive spillover from the cyclical upturn in the US and Emerging markets



Source: BBVA Research using CPB data



Source: BBVA Research

World economy is expected to grow at around 4%

Trade is growing at 7% and commodity prices remain at high level

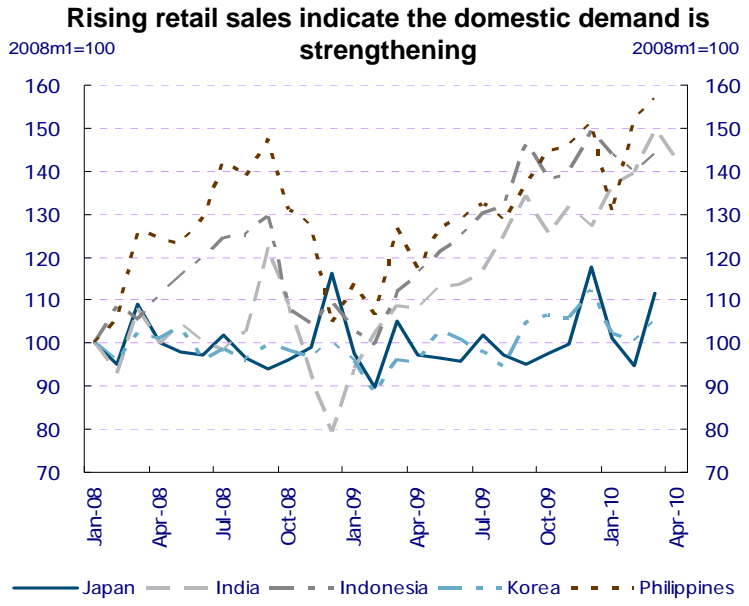
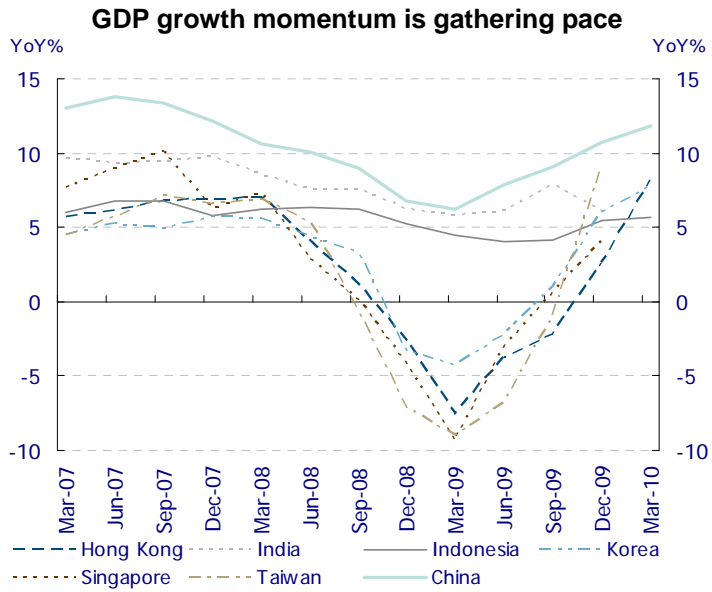
9th Annual Structured Trade and Export Finance Asia Pacific Conference

第九届亚太区结构性贸易和出口融资年会



Asia is leading the global recovery

- Asia has re-emerged as the world's fastest growing region, with output and exports of most countries returning to pre-crisis level by 2009Q4.
- Growth momentum has been accelerating, with Q1 outturns surprising on the upside.
- Recoveries were initially led by stimulus policies and China's strong demand from its massive spending package. More recently, growth has been also propelled by domestic demand, enhancing prospects for self-sustaining recoveries.



9th Annual Structured Trade and Export Finance Asia Pacific Conference

第九届亚太区结构性贸易和出口融资年会



Despite global risks, Asia's outlook remains bright

- With growth momentum strengthening, Asia's economic outlook remains bright and we are raising our growth forecasts.
- Export demand is expected to stay resilient, not only because of demand from China, but because of the ongoing global and regional restocking process that still has some quarters to run.
- Some moderation of growth can be expected in the second half of the year as policy stimulus is withdrawn and as the boost from the global inventory cycle begins to wear off.

