

# China-LATAM

Going beyond common wisdom

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## 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**

## Outline

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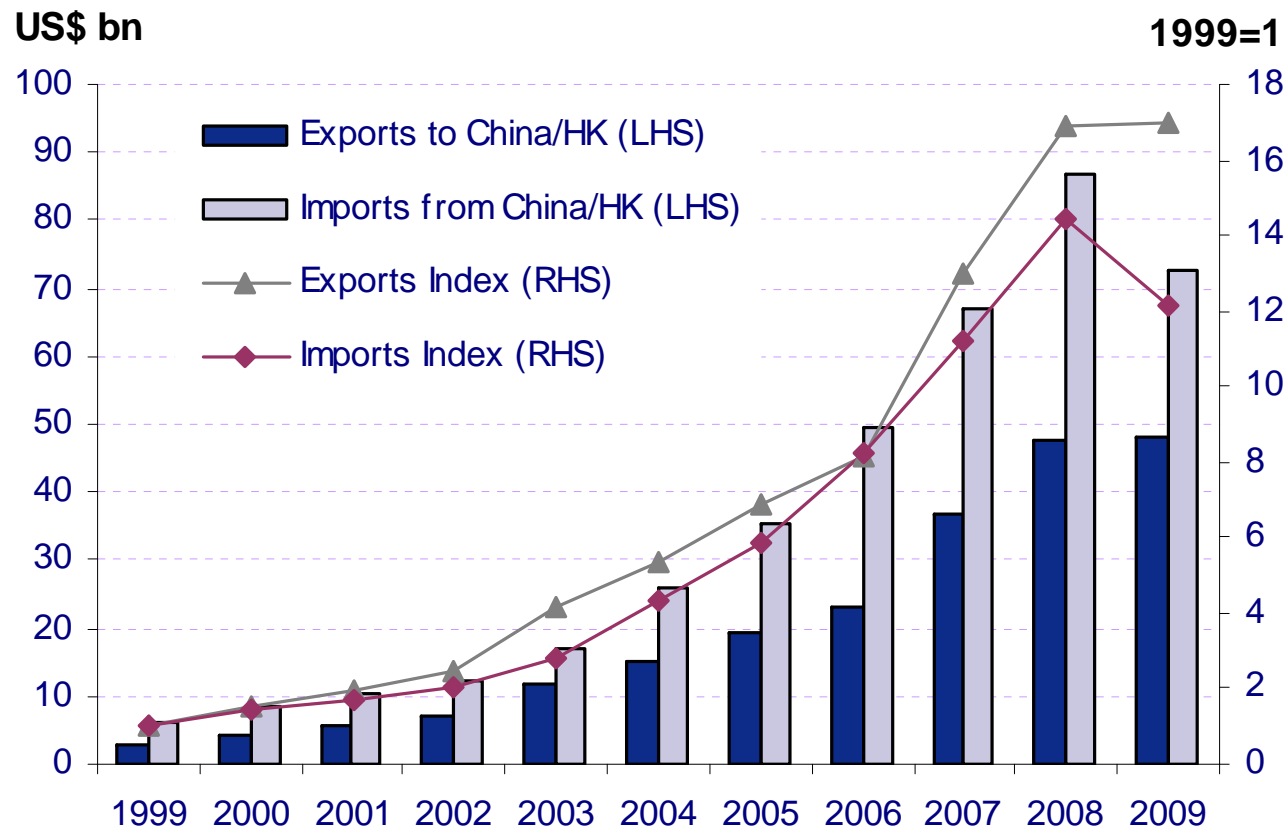
## The story so far

### 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



## The story so far

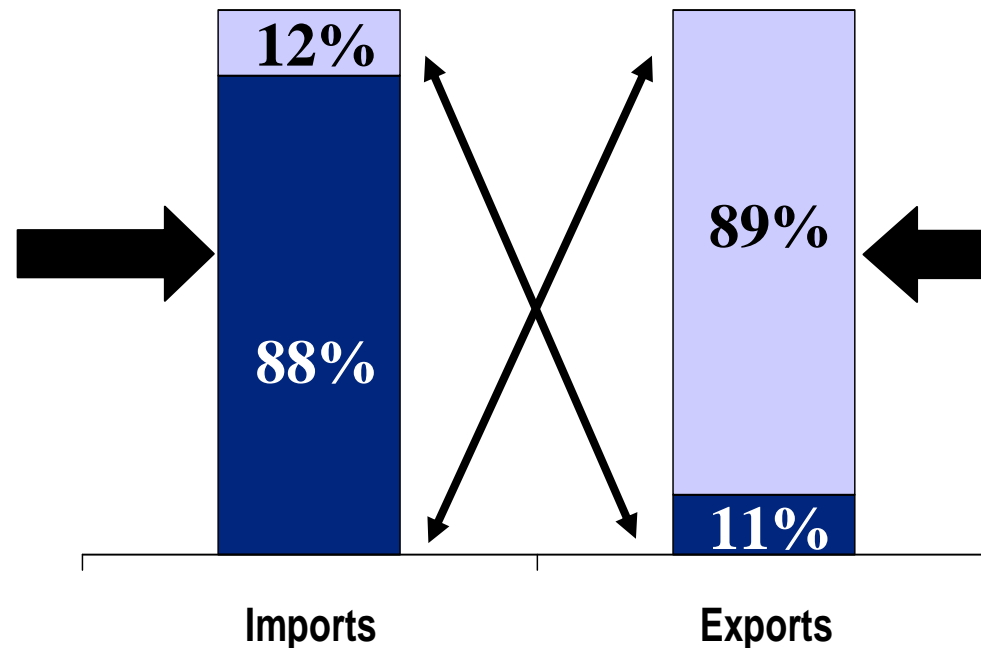
### Developments on trade

**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



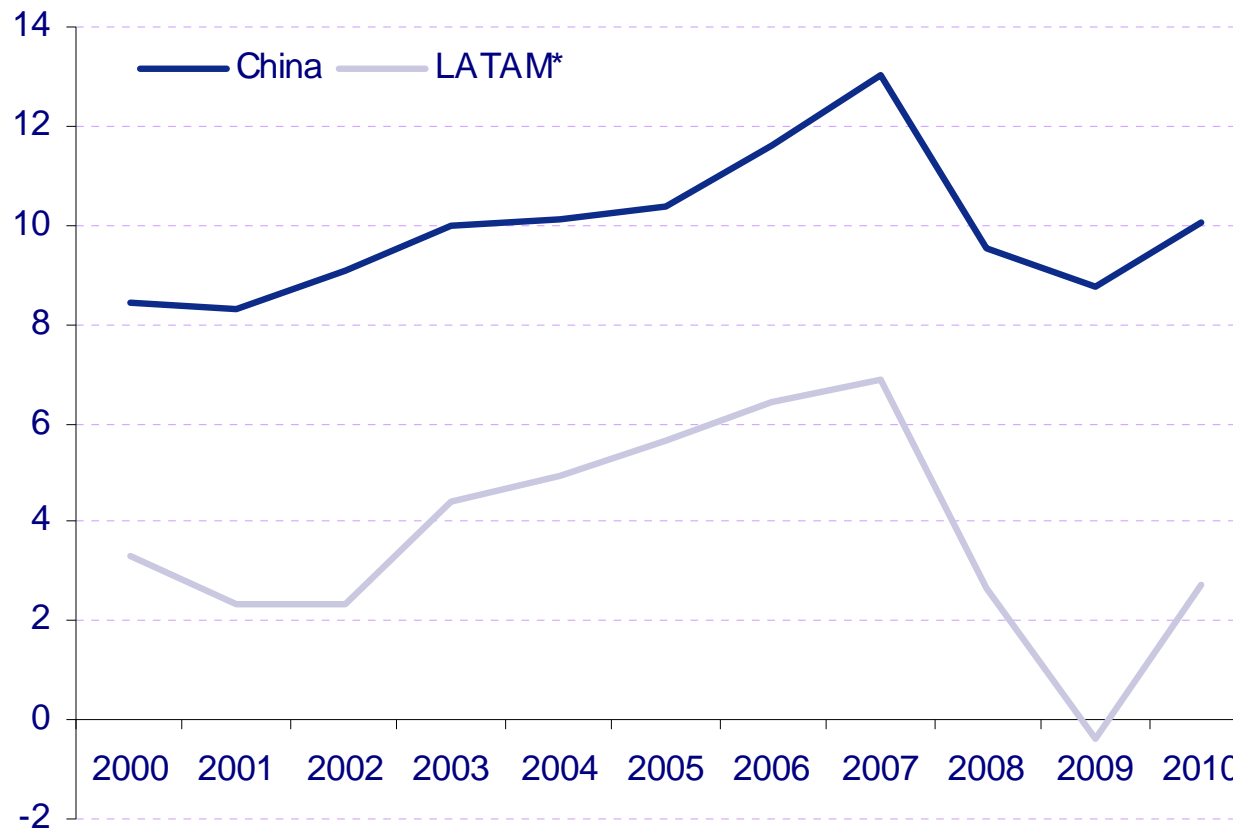
## The story so far

### China's role on LATAM business cycle

**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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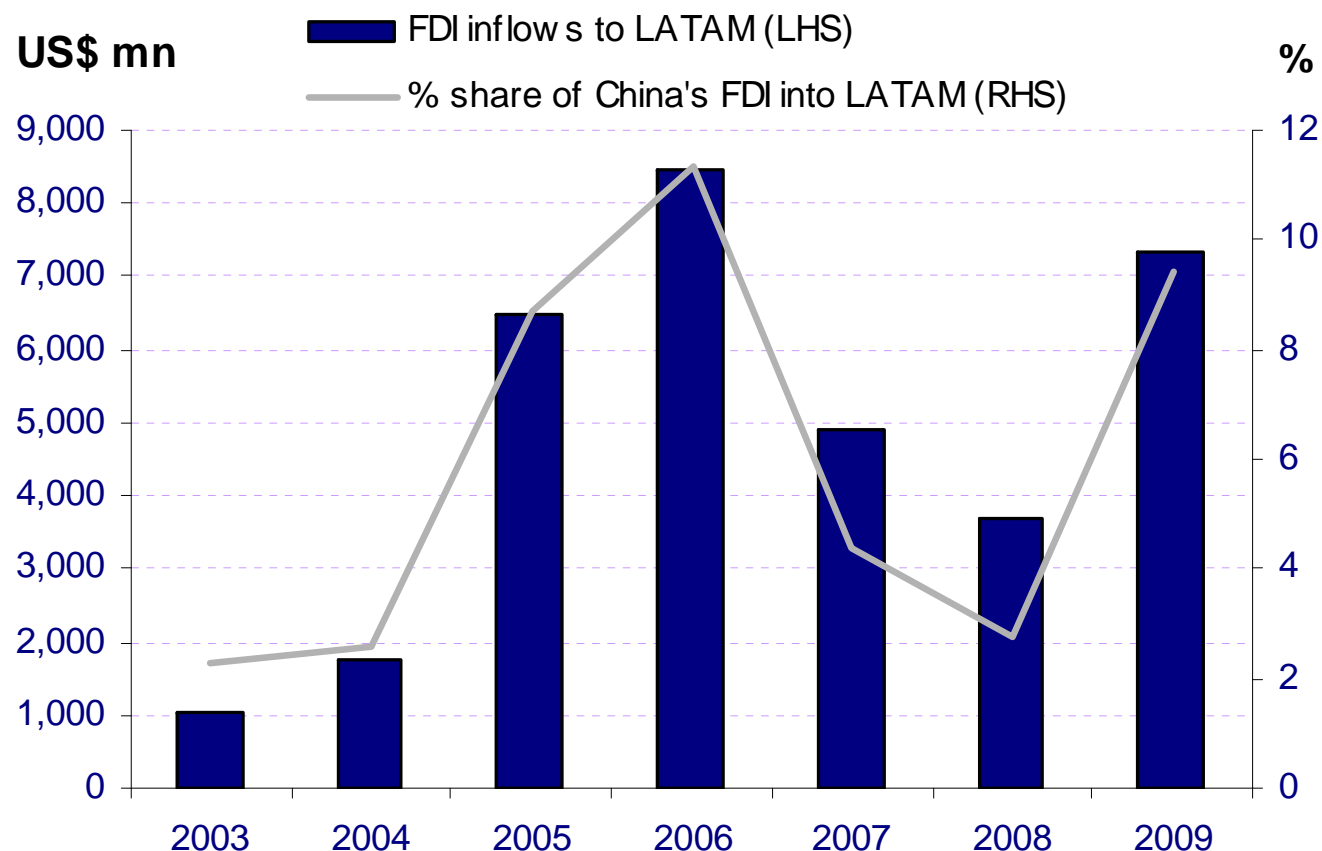
The role of BBVA

## What about FDI?

**FDI flows** 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



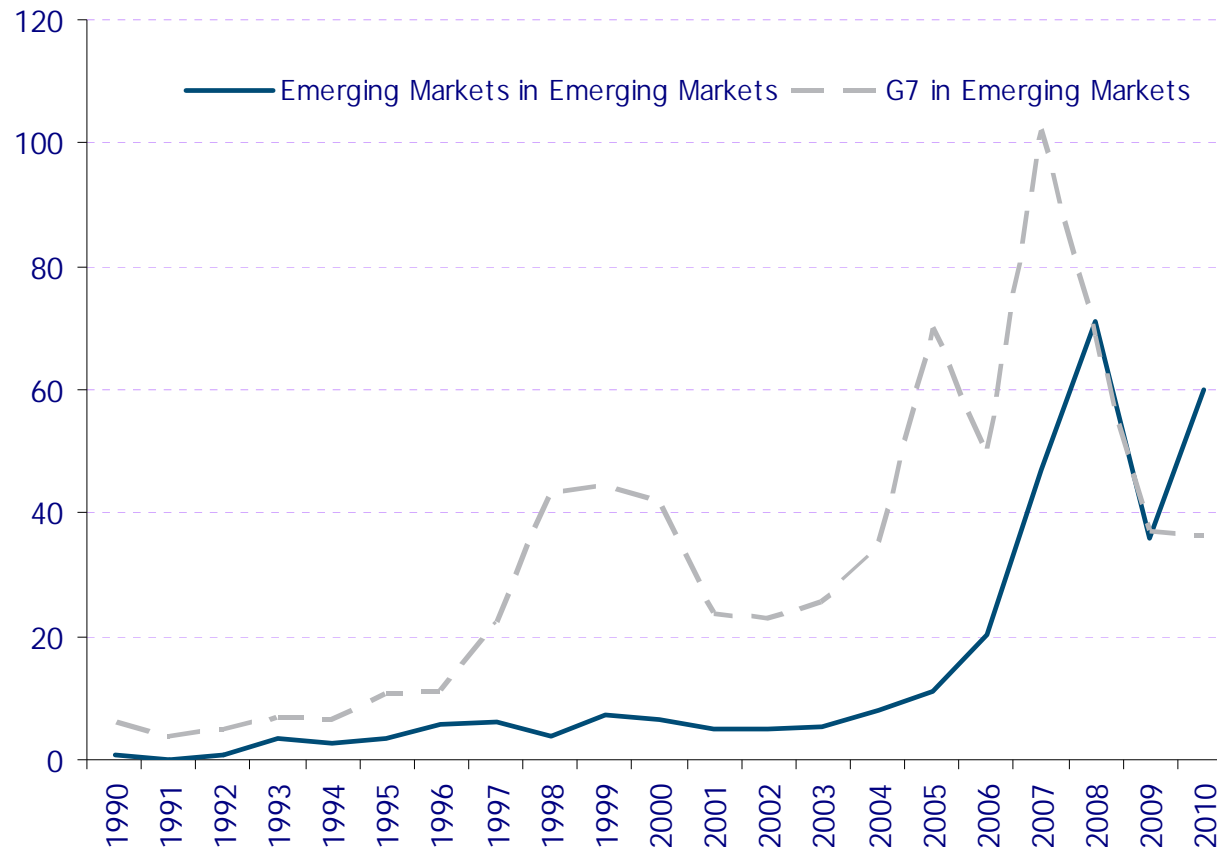


## What about FDI?

**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

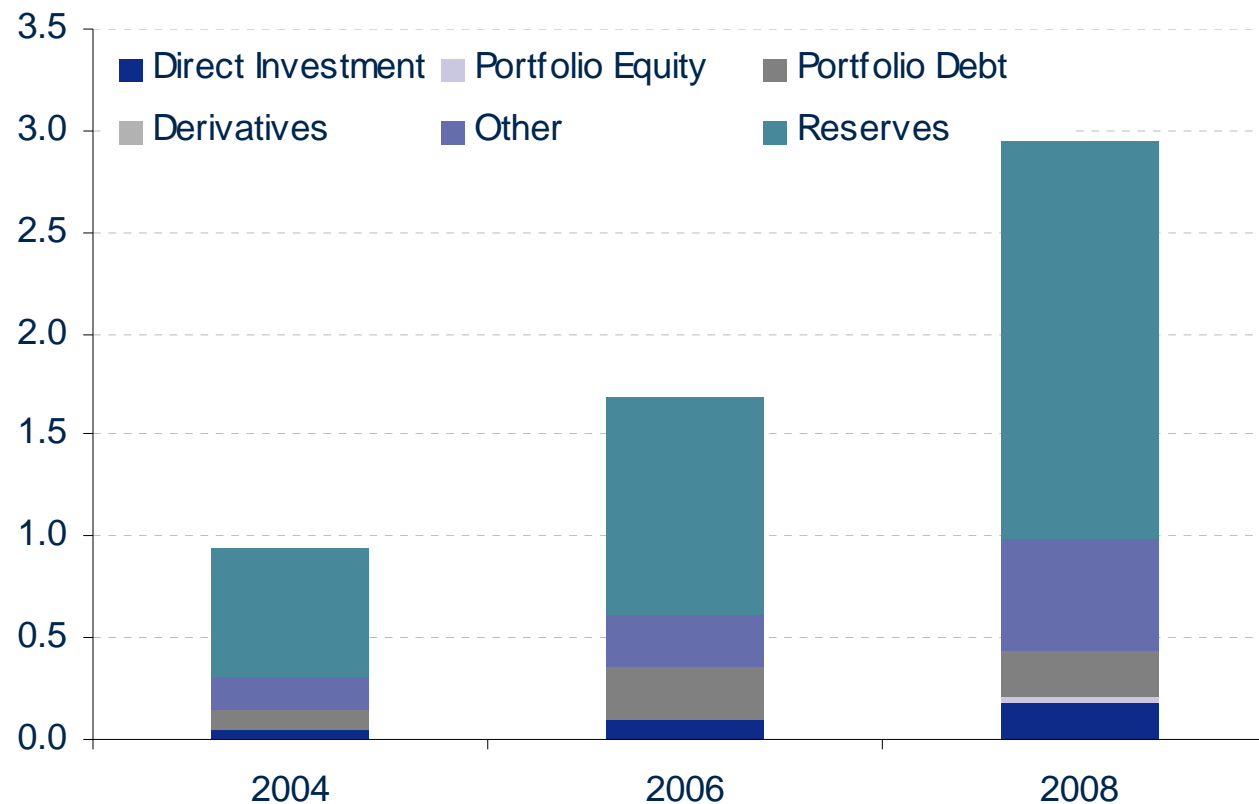


## What about FDI?

**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 International Investment Position

US Trillion, Source: IMF



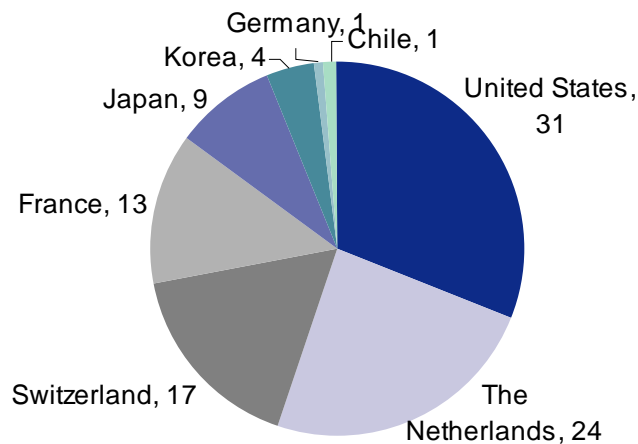
## The future on economic relationships

FDI beyond  
natural  
resources

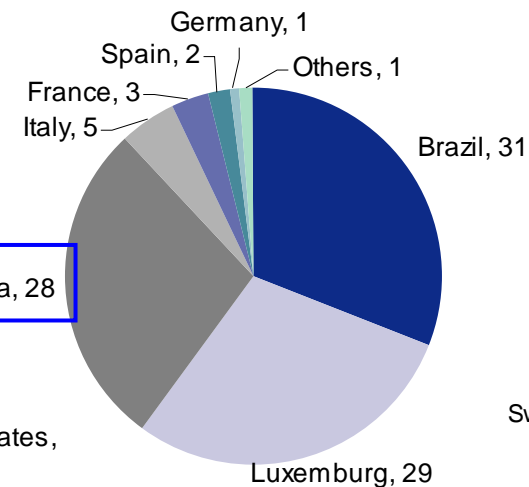
**China's FDI investment is not only in natural resources extraction.** There are also relevant projects for the manufacturing industry

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

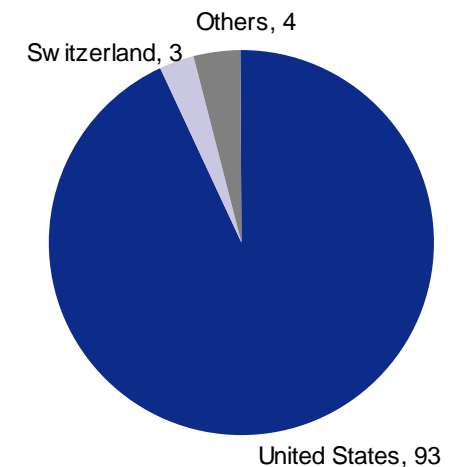
%, Source: ECLAC  
High



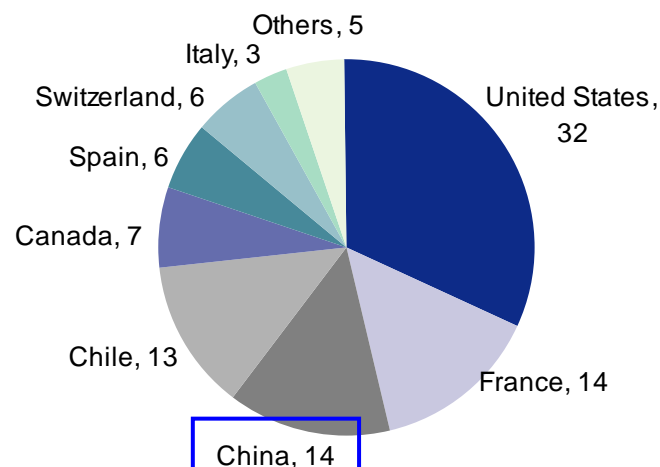
Medium-Low



Low



Medium-high



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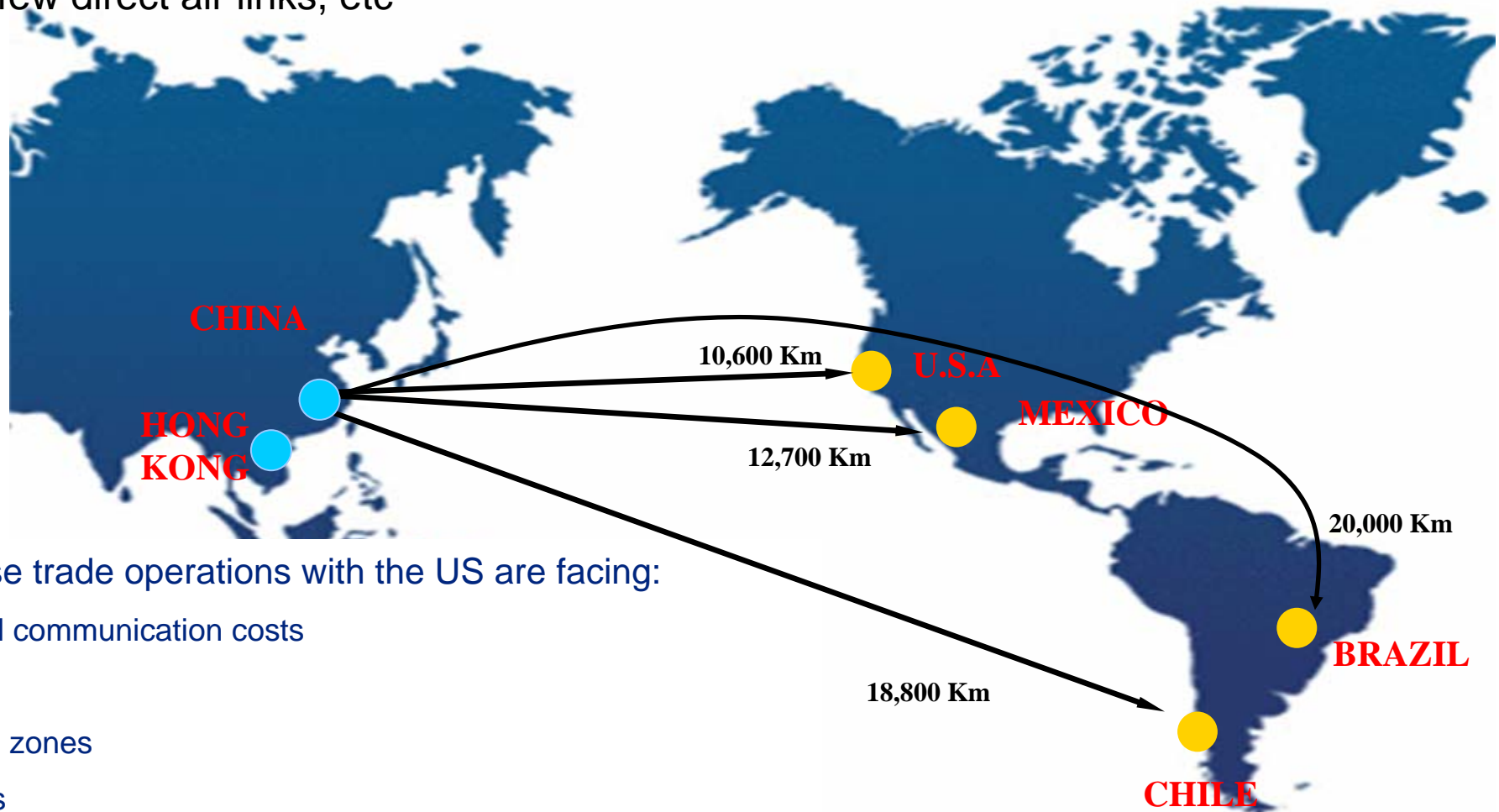
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The role of BBVA

## The future on economic relationships

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



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

## 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**



## The future on economic relationships

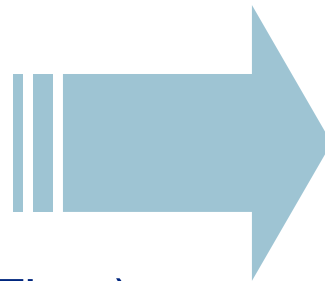
### Location and geographic advantages

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**

Closeness

Transport costs

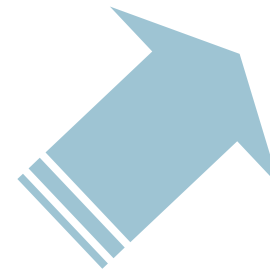
Inventories (Just in Time)



Complementary schemes

FDI

Intra-industry trade



Add value (complementary schemes)

**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 China/HK (export diversification and provision of services).**

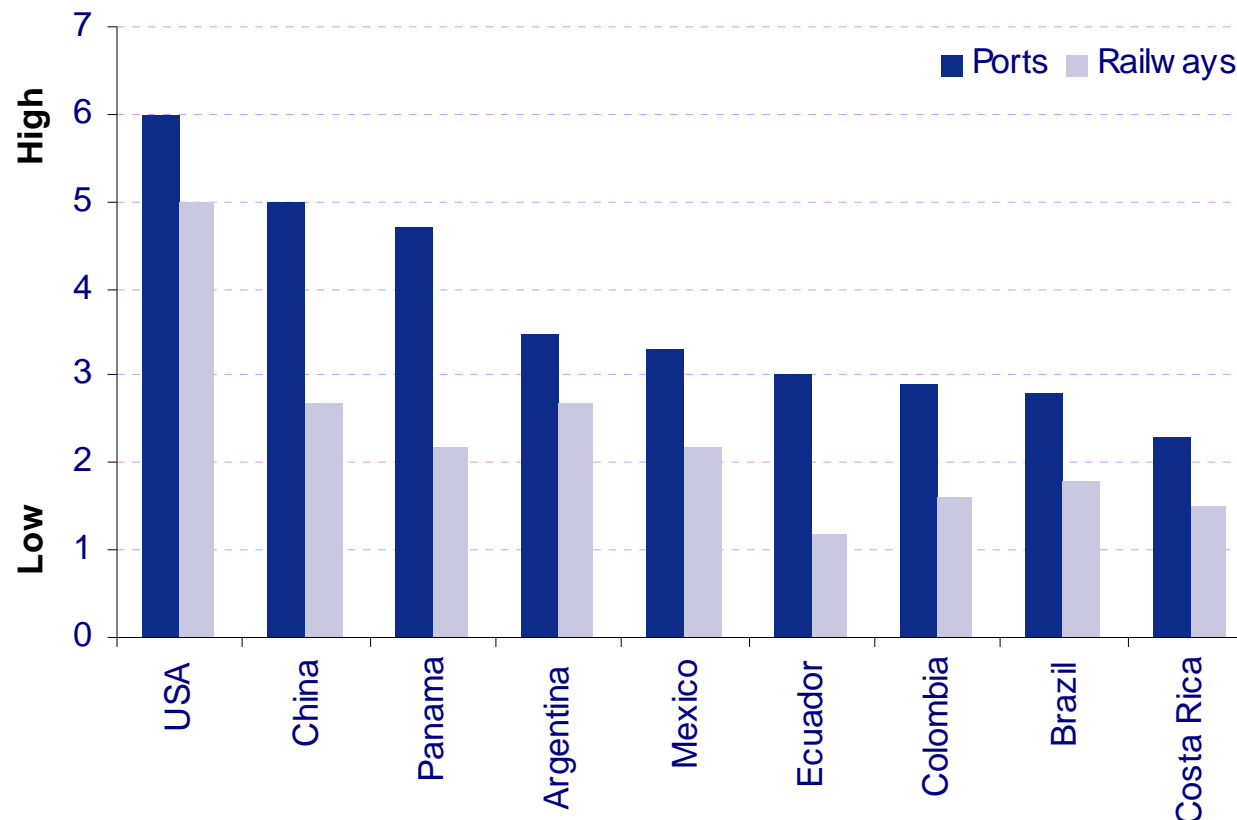
## The future on economic relationships

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

Source: OECD Development Centre, 2008, based on CGLA Infrastructure Database on Global Infrastructure Competitiveness (2006) and World Economic Forum (2005) data





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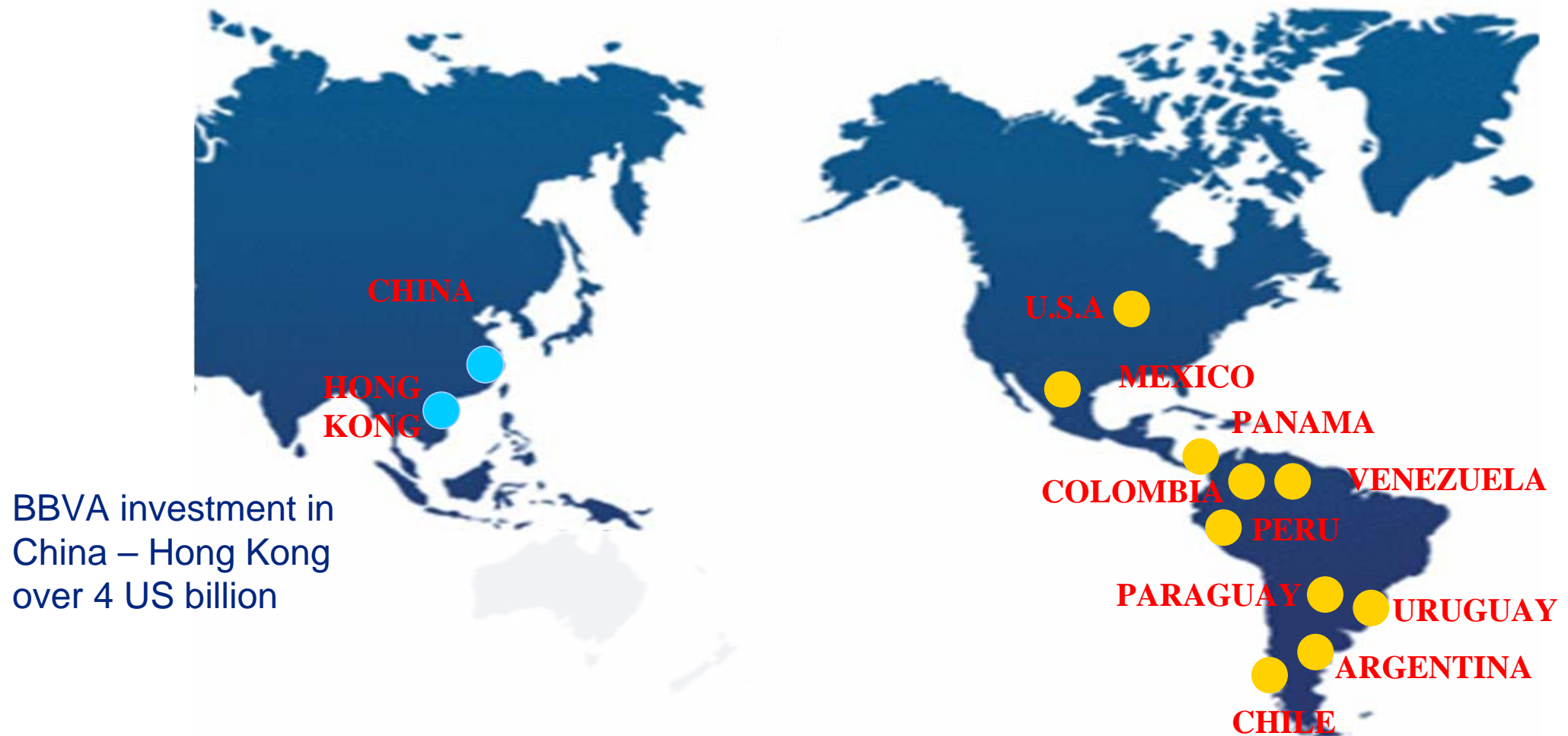
The future on economic relationships

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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



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