



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**

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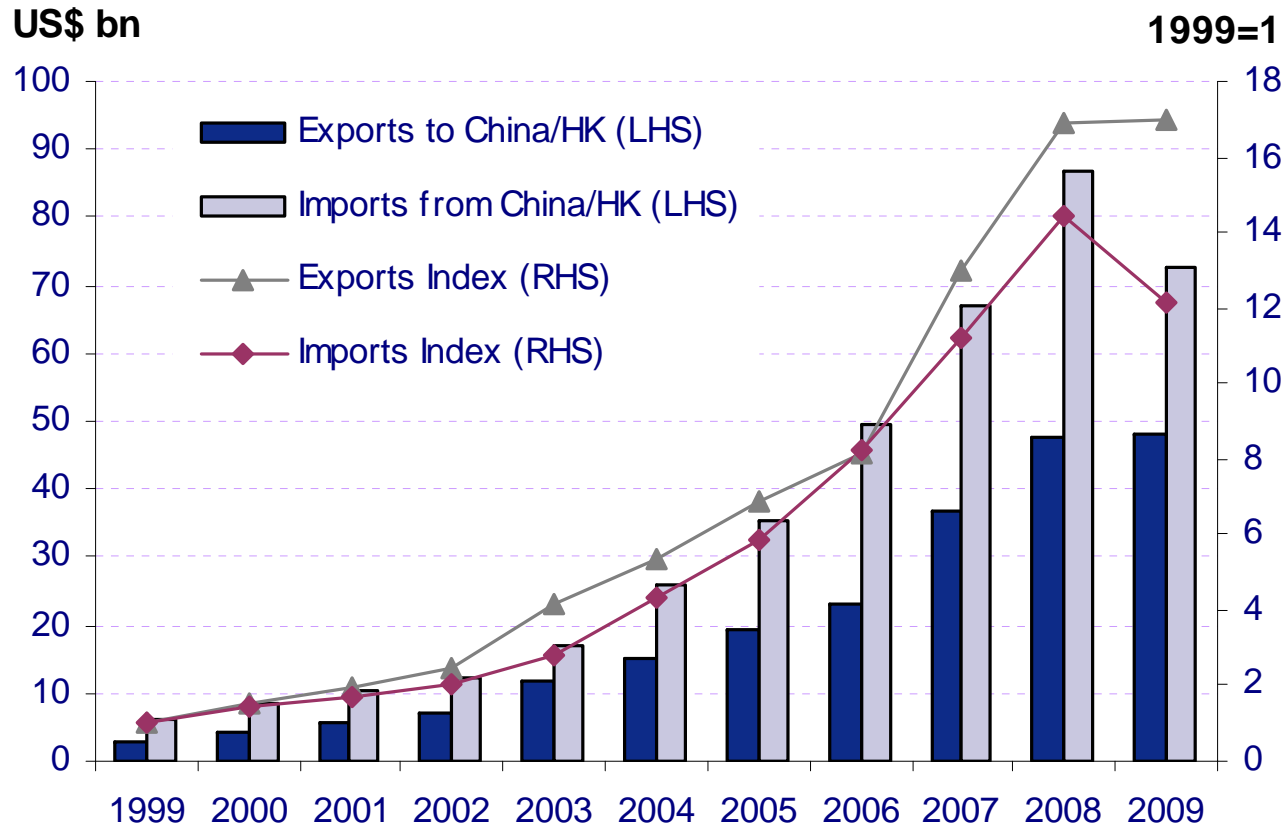
The story so far

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

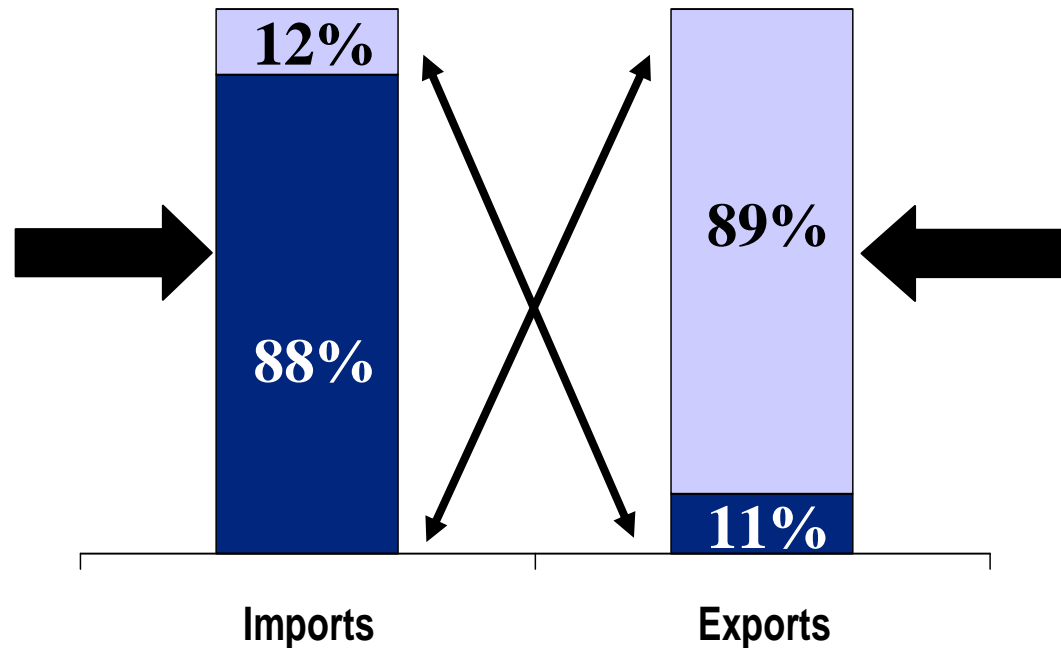
Developments on trade

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

- Primary products & Natural resources manuf.
- Low, Mid and High-tech manuf.

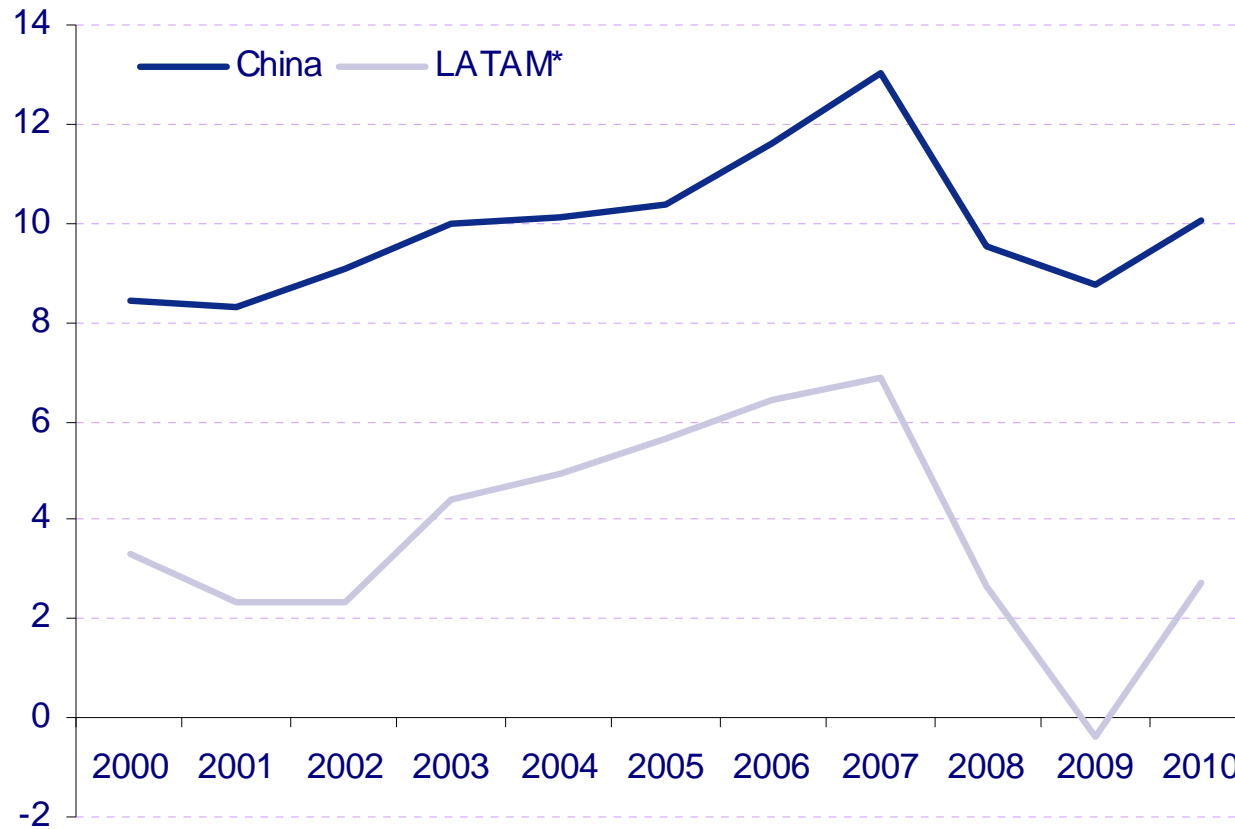
The story so far

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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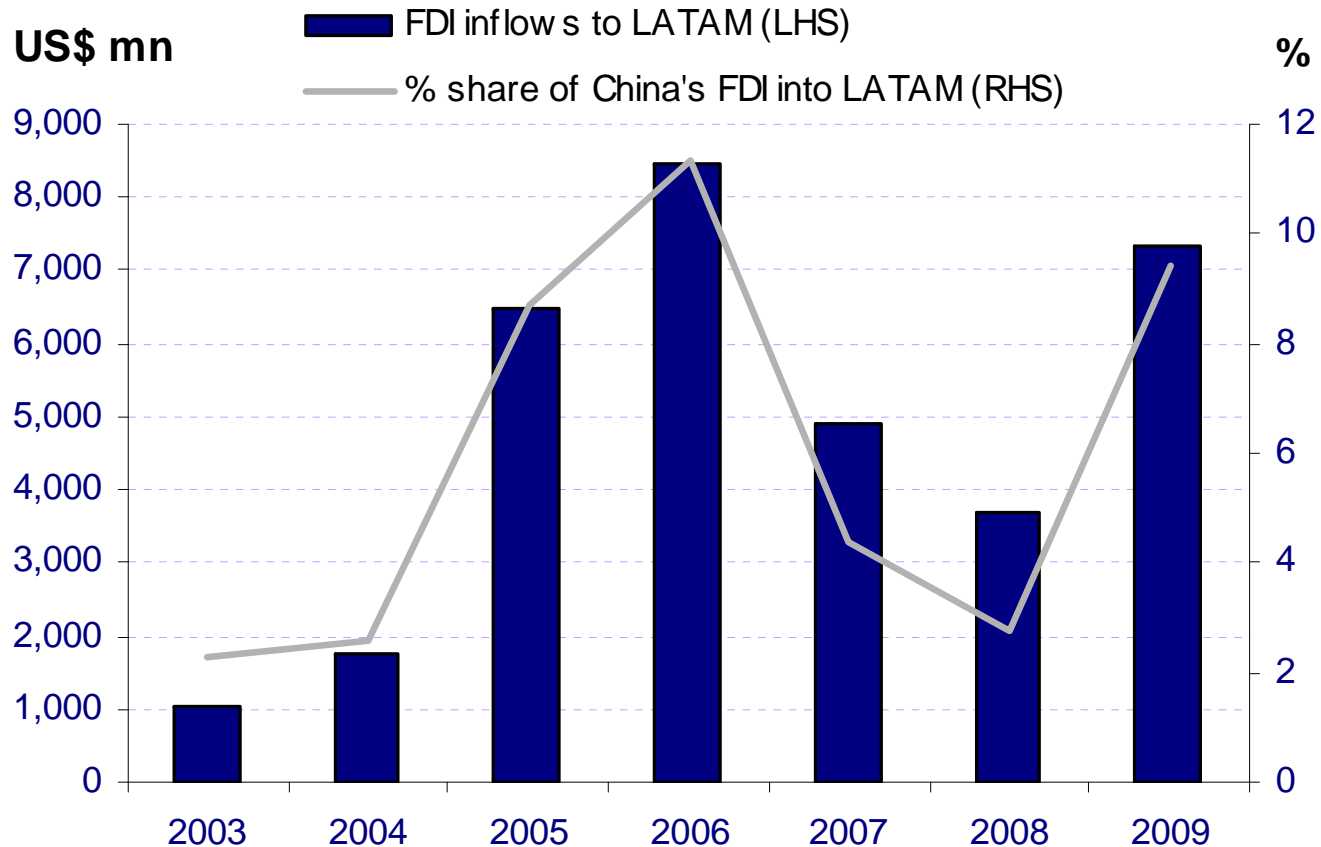
The role of BBVA

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

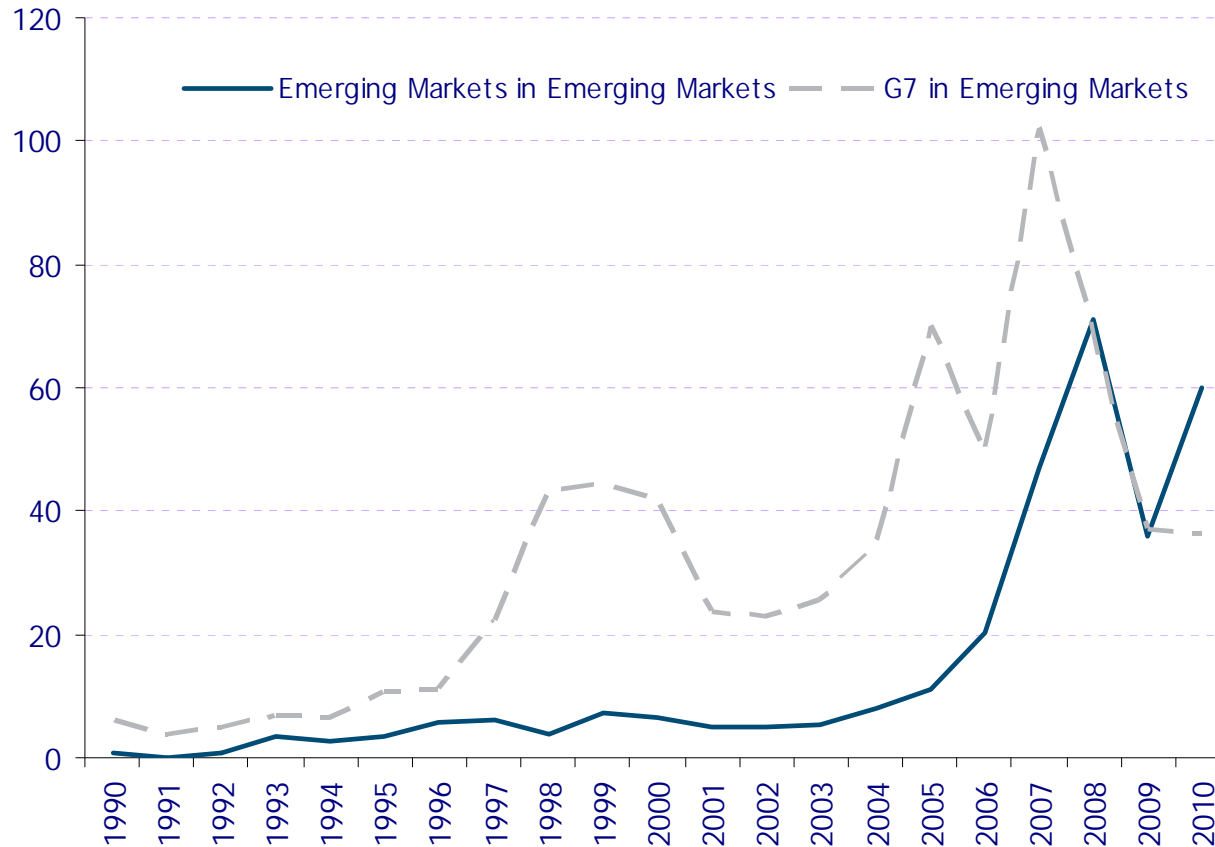


What about FDI?

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

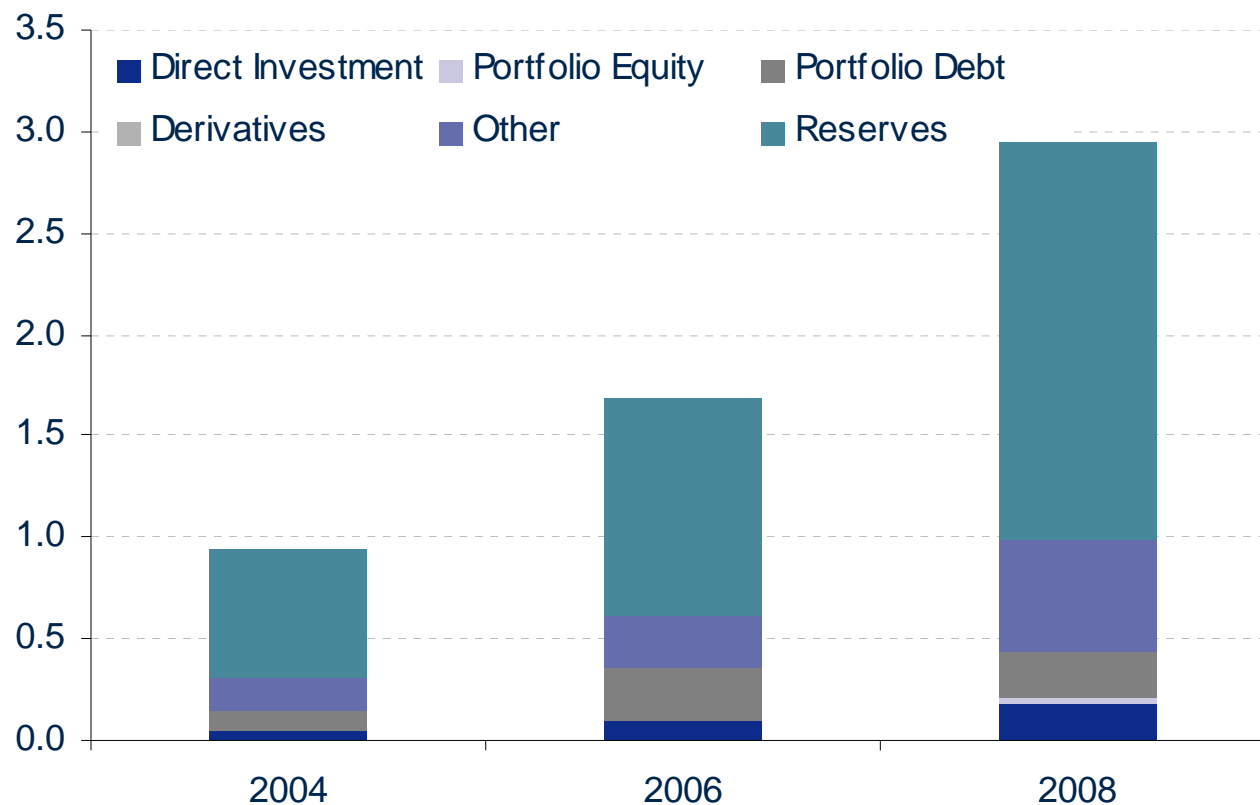


What about FDI?

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



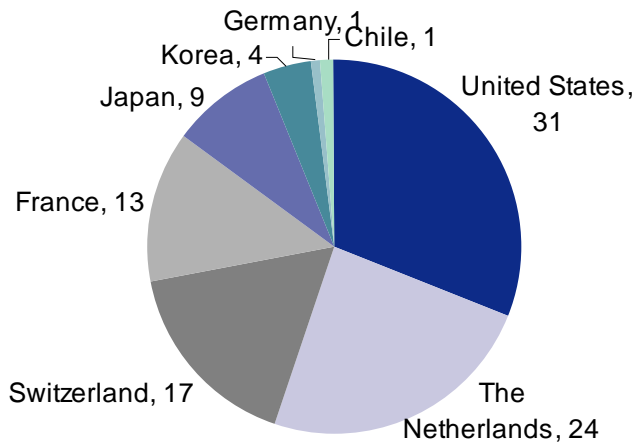
The future on economic relationships

FDI beyond natural resources

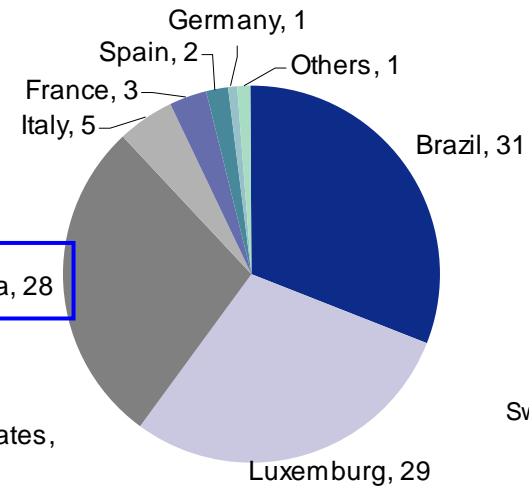
China's FDI investment is not only in natural resources extraction. There are also relevant projects for the manufacturing industry

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

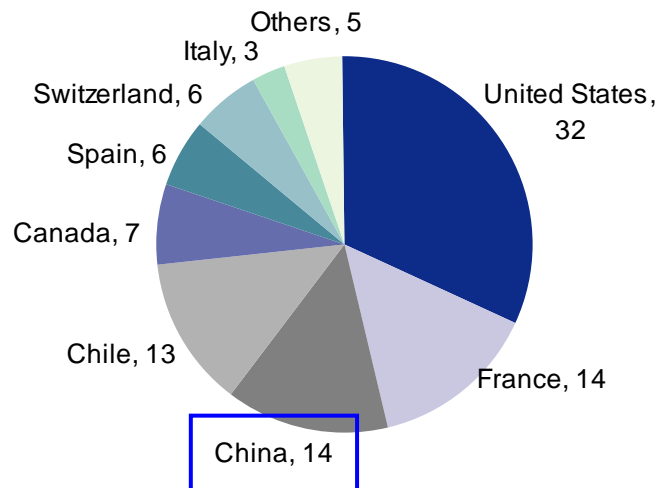
%, Source: ECLAC
High



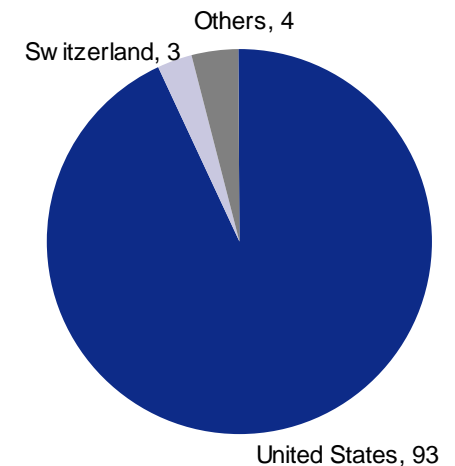
Medium-Low



Medium-high



Low



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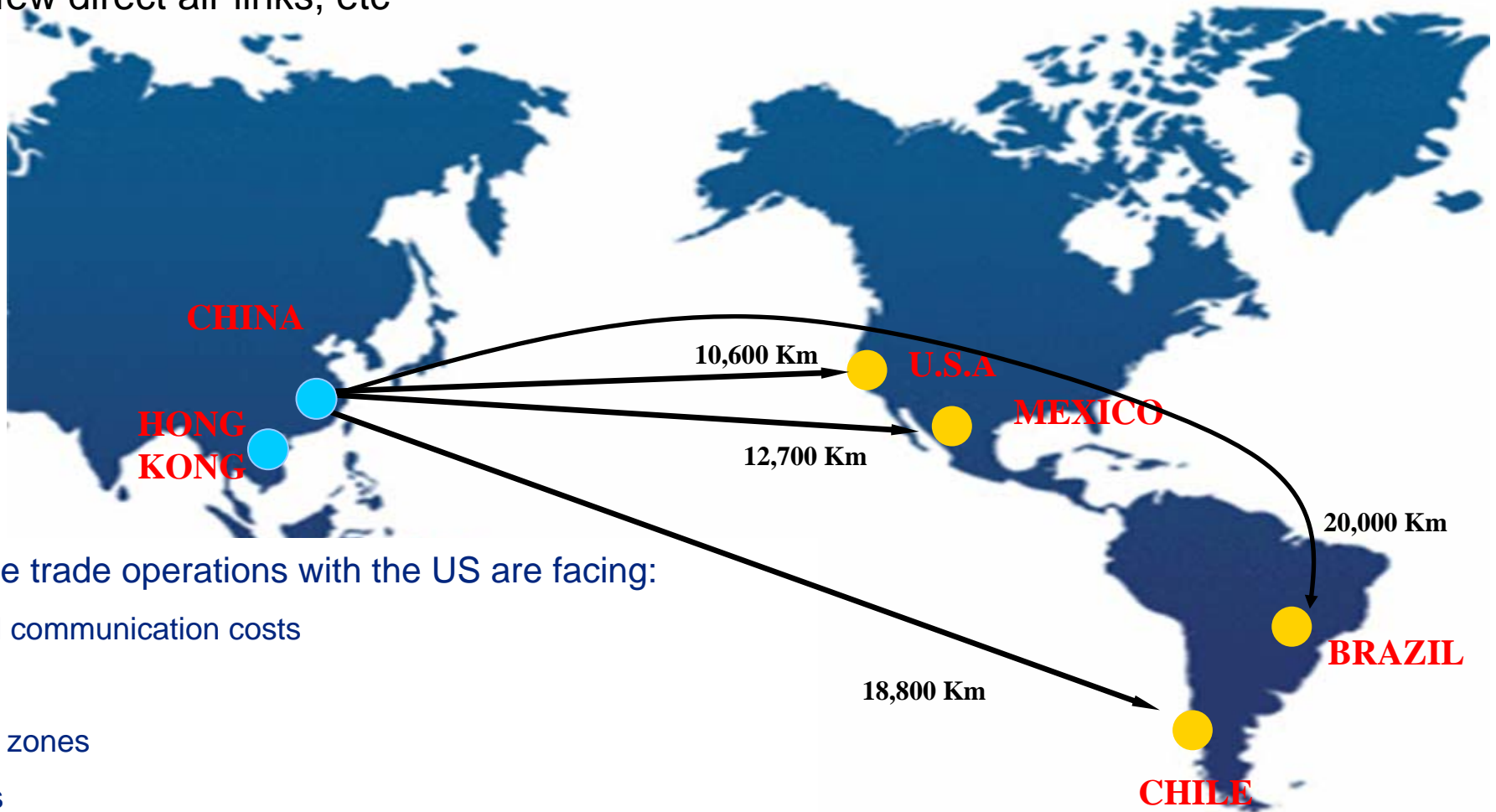
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The future on economic relationships

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

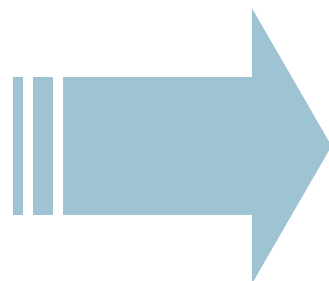
Location and geographic advantages

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).

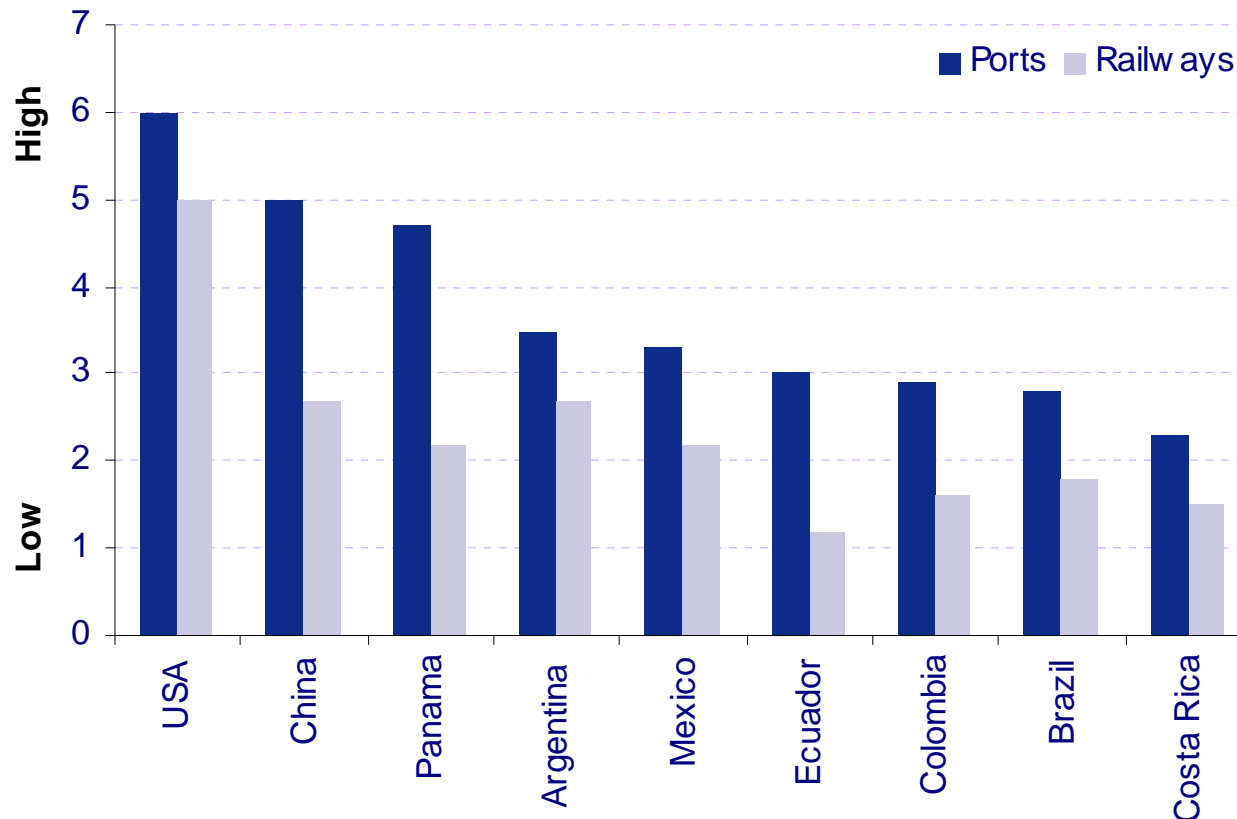
The future on economic relationships

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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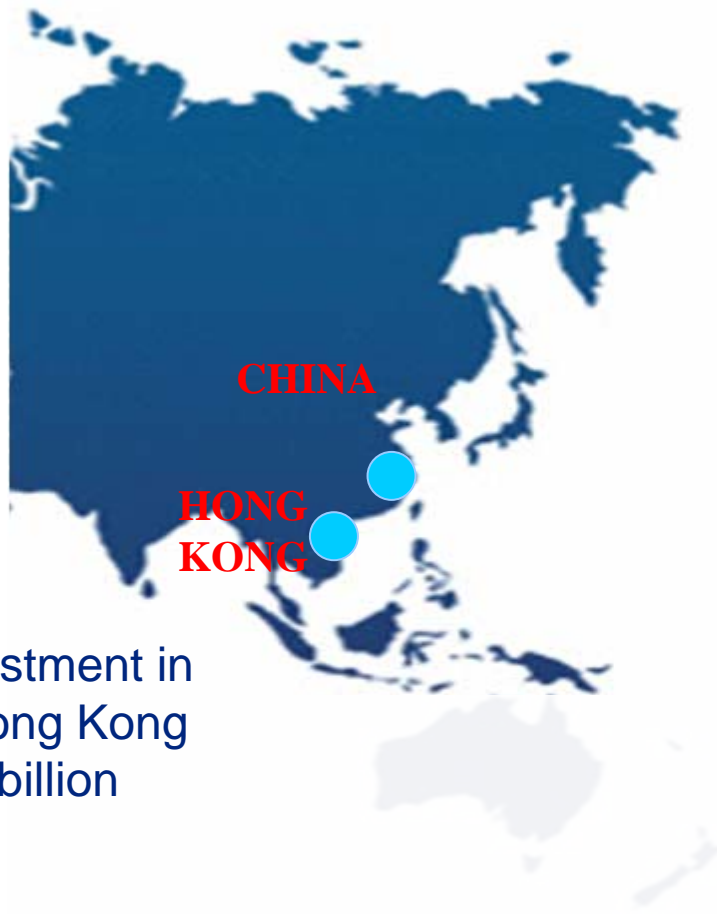
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The role of BBVA

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



BBVA investment in China – Hong Kong over 4 US billion





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