

The New Global Order is Asian: Opportunities and risks for Latin America

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Key Messages

The new global order will be Asian

- Opportunities are concentrated within emerging Asian economies

The future for Latin America

- Latin American economies also have world class players

Partnership with Asian economies

- However, Latin America's bright future much less dependent on traditional partners and much more on Asia, specially China

Risks and opportunities

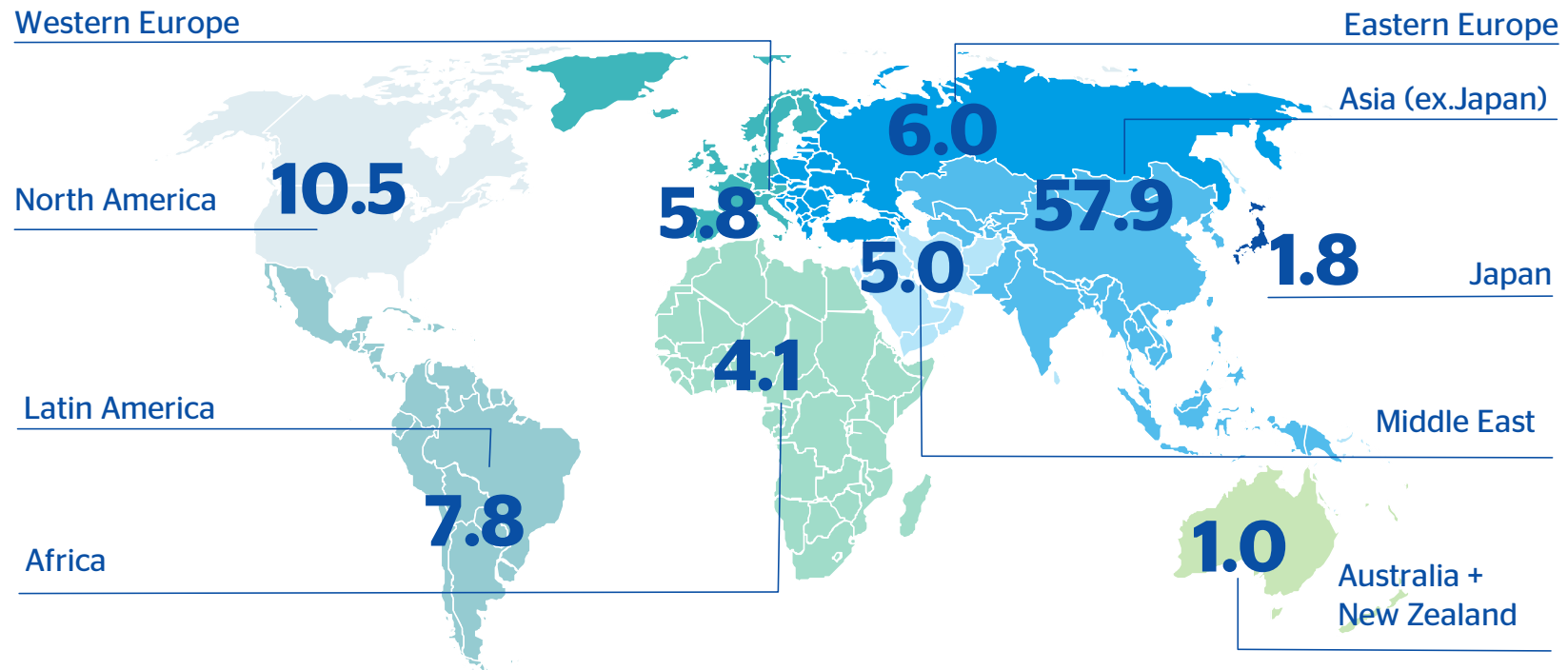
- China's sweet commodity demand has stopped the process of export diversification
- However, opportunities go beyond that China can also become a larger provider of FDI for Latam to produce manufacturing as well as importer of Latin American goods

The new global economic order will be Asian

- Emerging Asian economies to contribute close to 58% to global growth in next 10 years
- Traditional Latin American partners (US and EU) to contribute less than 20%

Contribution to World economic growth by region between 2011-2021 (%)

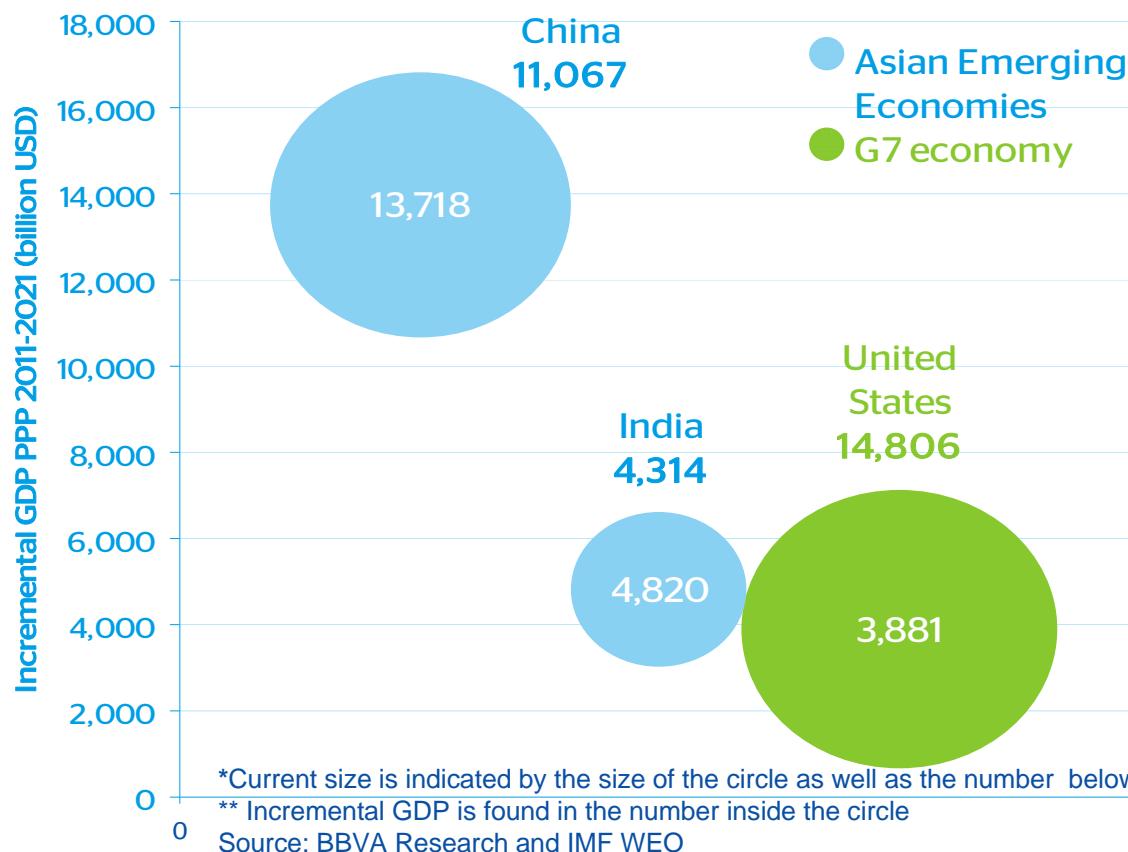
Source: BBVA Research and IMF WEO



The Asian order will be Chinese ... followed by India in the distance

- China's incremental GDP will triple that of India.
- India, itself, will have a larger contribution to growth than the US

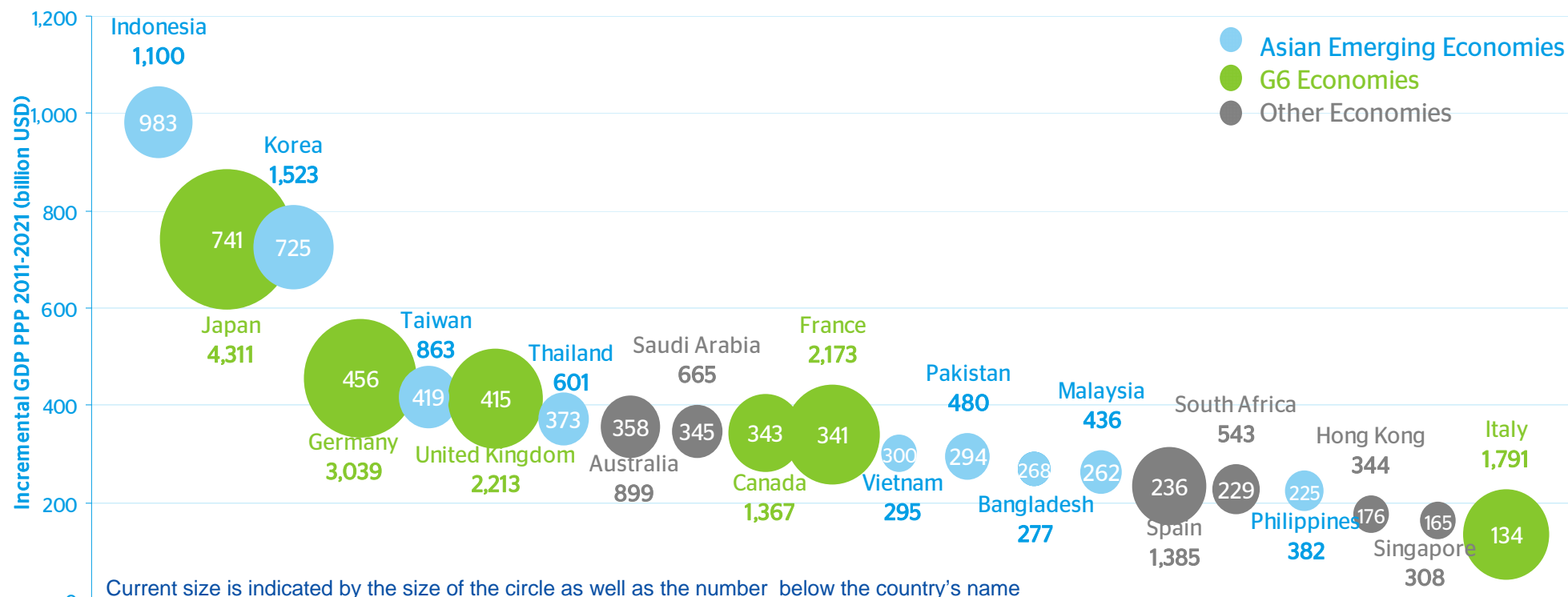
Current economic size* and incremental GDP 2011 - 2021
(billion USD, adjusted by PPP)**



Other Asian countries will also be key players

- Indonesia will contribute much more than Japan to global growth.
- Korea as much as Japan and much more than Germany
- Taiwan slightly more than the UK

Current economic size* and incremental GDP 2011 - 2021**
(billion USD, adjusted by PPP)



What about Latin America?

- Brazil and Mexico also world class players
- Brazil will contribute to global growth nearly double Japan. Mexico more than Germany.
- Argentina more than Canada, Colombia close to France. Peru and Chile more than Italy

Current economic size* and incremental GDP 2011 - 2021**
(billion USD, adjusted by PPP)

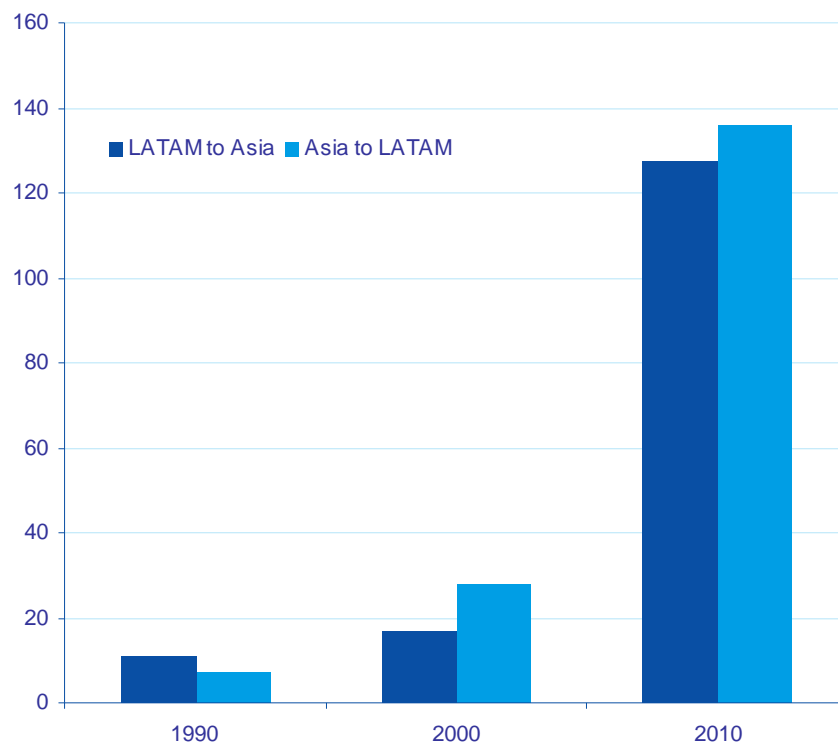


However, Latin American relevance in the global arena is more and more dependent on Asia, particularly China

Trade between Asia and Latin America has grown nine times in last 20 years

Trade flows between Asia and LATAM 7 (billion USD)

Source: BBVA Research and COMTRADE



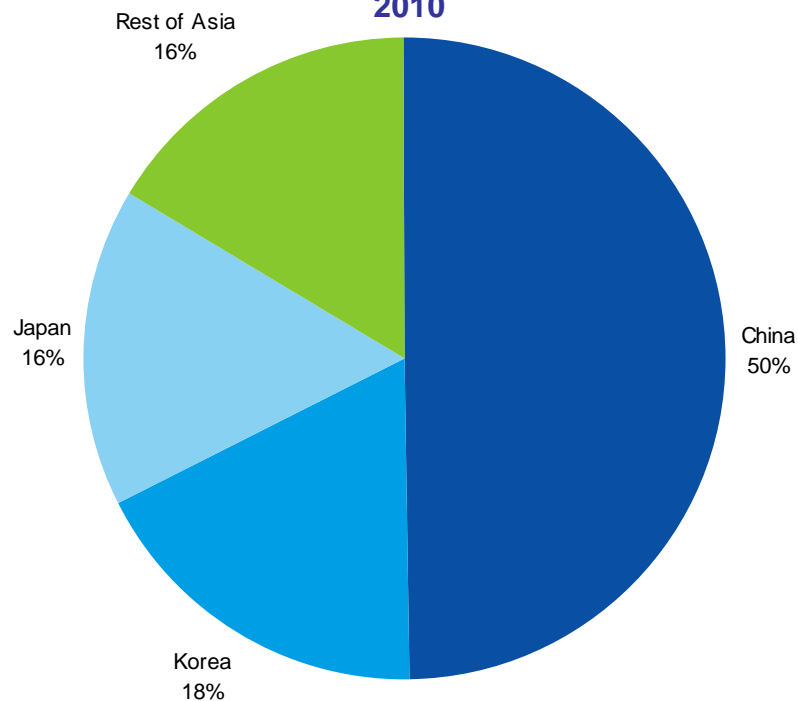
China is the key trading partner but also Korea and Japan are relevant

In 2010 the three countries accounted for 84% of total exports to LATAM (114 billion USD)

Brazil and Chile accounted for 66% of total exports to Asia which added up to 84 billion USD. Argentina, Mexico and Peru played a minor role

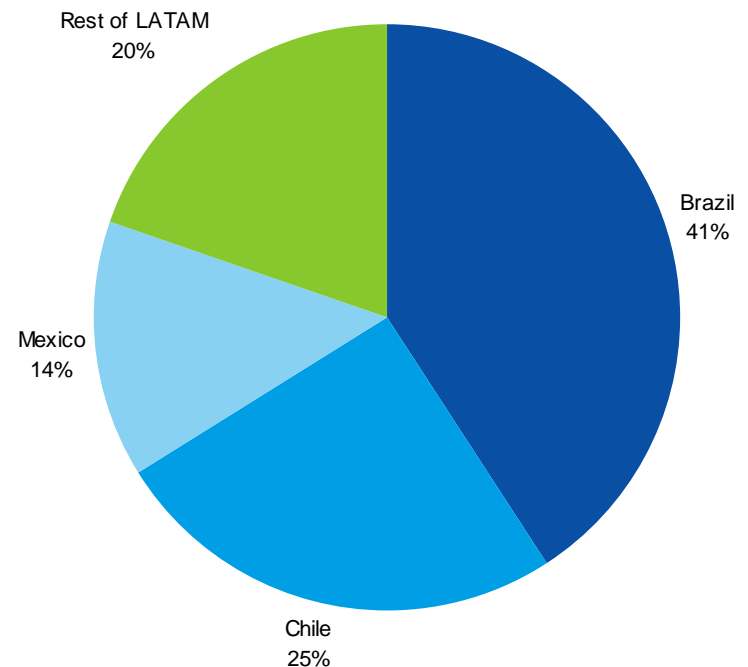
Trade flows Asia to LATAM: the big players

2010



Trade flows LATAM to Asia: the big players

2010



China top trading partner... but not only for exports, also for imports!

China's ranking as trade partner in Latin America

Source: BBVA Research and COMTRADE

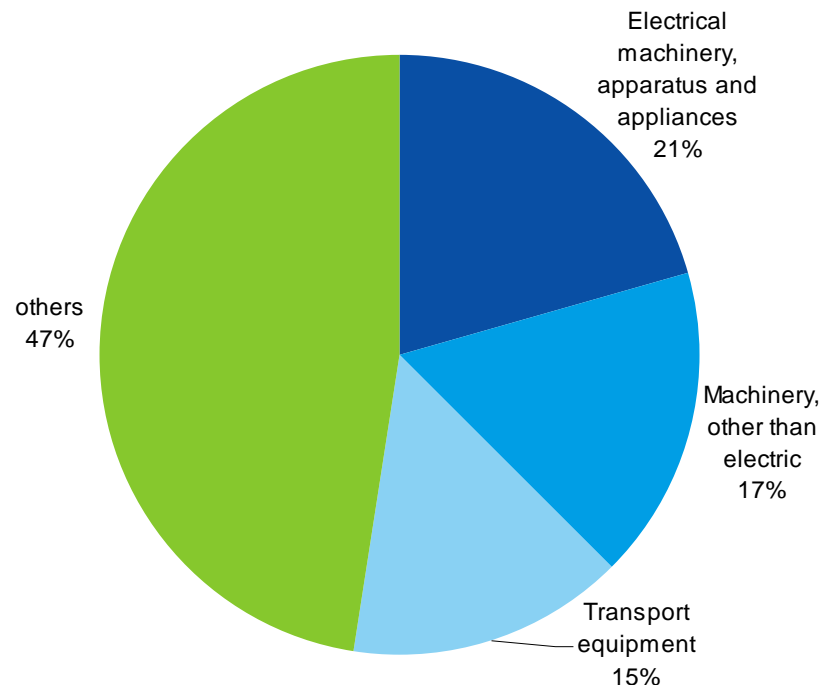
Country	Export to China		Import from China	
	2000	2010	2000	2010
Argentina	6	2	4	2
Brazil	12	1	11	2
Chile	4	1	4	1
Colombia	36	2	9	2
Mexico	19	3	6	2
Peru	2	1	9	2
Venezuela	35	7	18	2

Comparative advantage ruling trade patterns

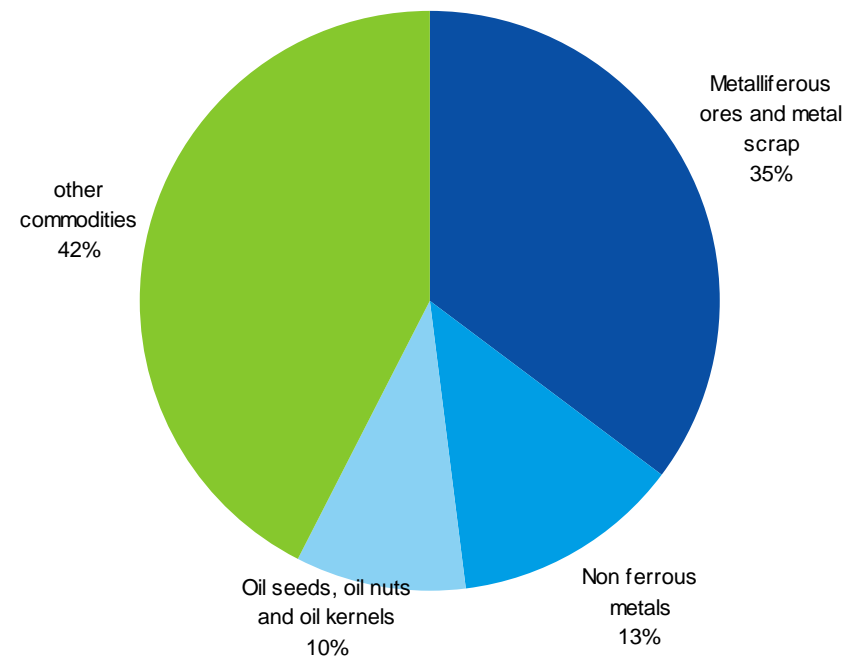
LATAM exports concentrated on commodities: iron ore, soybean, copper, paper and food for animals

Asian exports are manufactured goods, also medium and high value added ones like motor vehicles, communication devices and electronic devices.

Trade flows Asia to LATAM: commodities
2010



Trade flows LATAM to Asia: commodities
2010



Risks and opportunities

Key risk

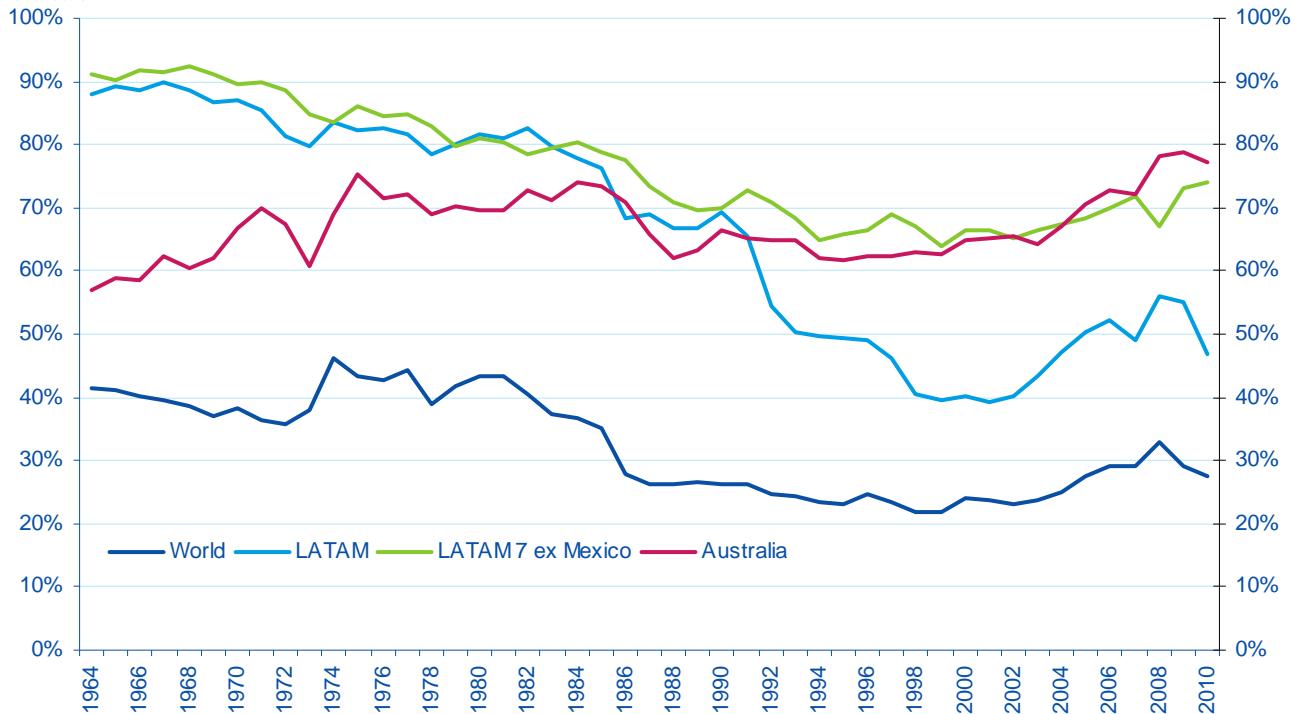
- Reverting the slow process of export diversification in the Latin American region
 - Maybe true but also happening elsewhere

Latin America continues to rely on commodity exports

The process of diversification away from commodities seems to have stalled in the last few years due to China's dominance

Commodity Exports (% of total exports)

Source: COMTRADE



Commodity markets increasingly concentrated

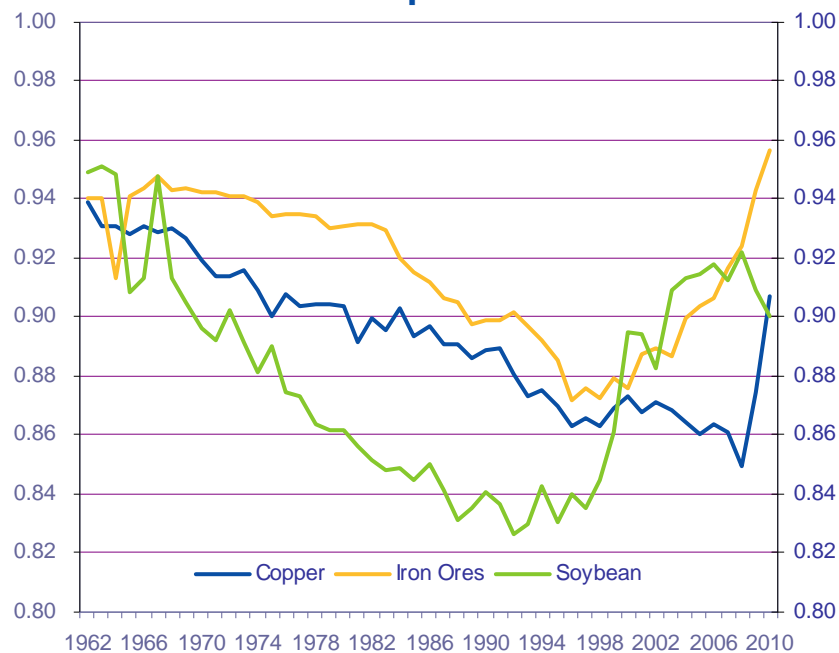
The rise of China has concentrated further the demand for commodities (imports)

However supply is also highly concentrated (exports)

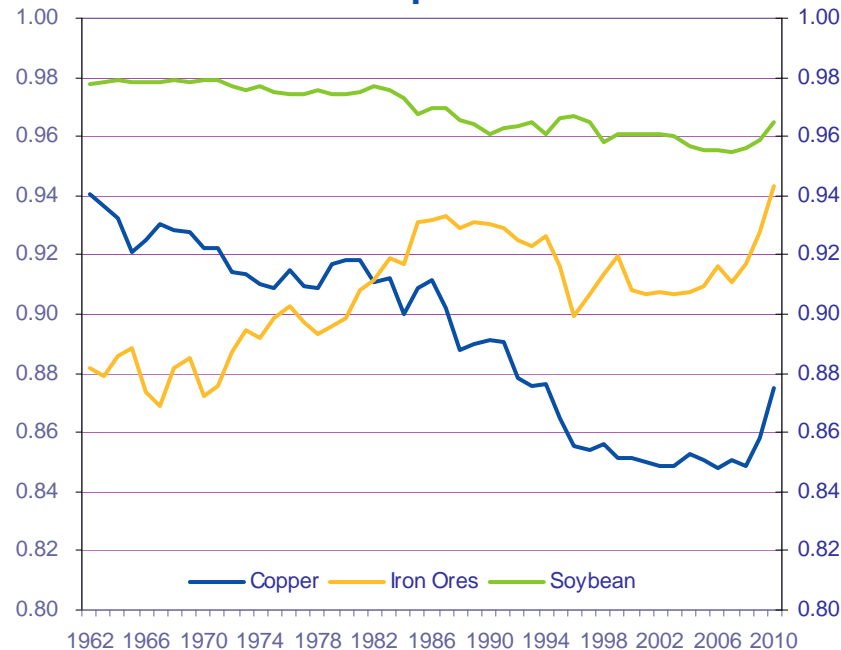
Commodity markets concentration (Gini coefficient)

Source: BBVA Research and COMTRADE

Imports



Exports



However Latin America still relatively closed. Exports to China are important but not essential

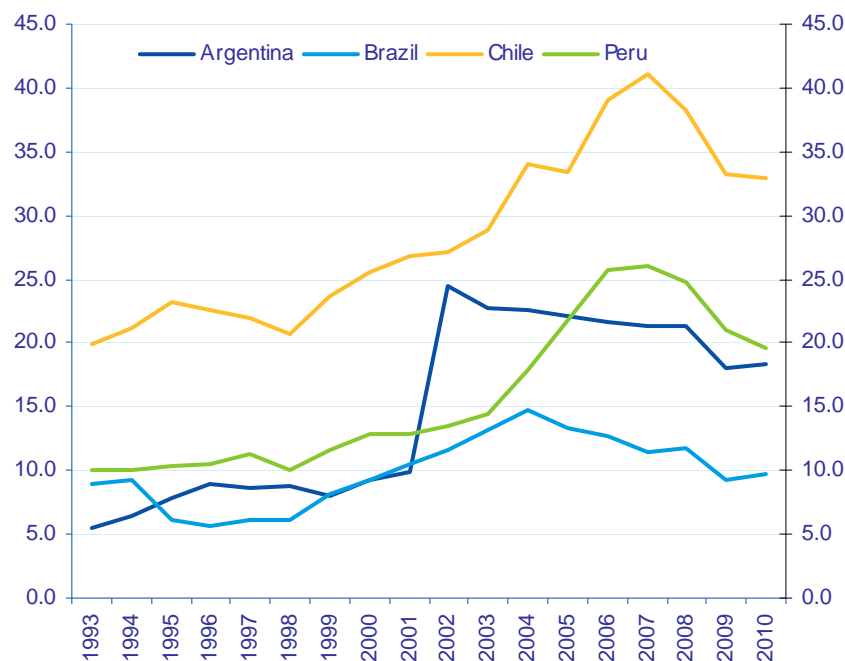
Exports have a significant share of GDP only in the case of Chile

Despite its explosive growth, exports to China are still small relative to GDP

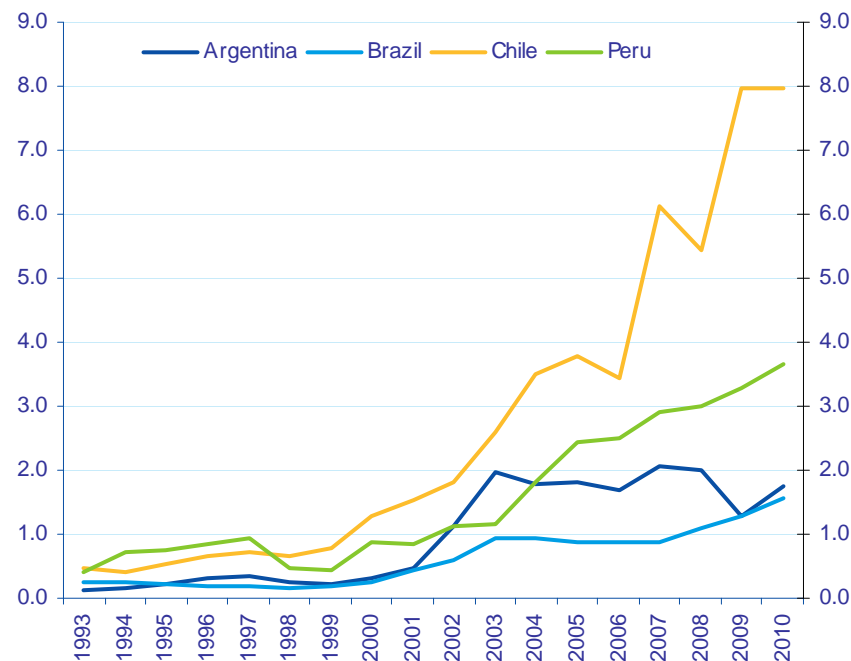
Exports (as % of GDP)

Source: BBVA Research and Haver

Total exports



Exports to China

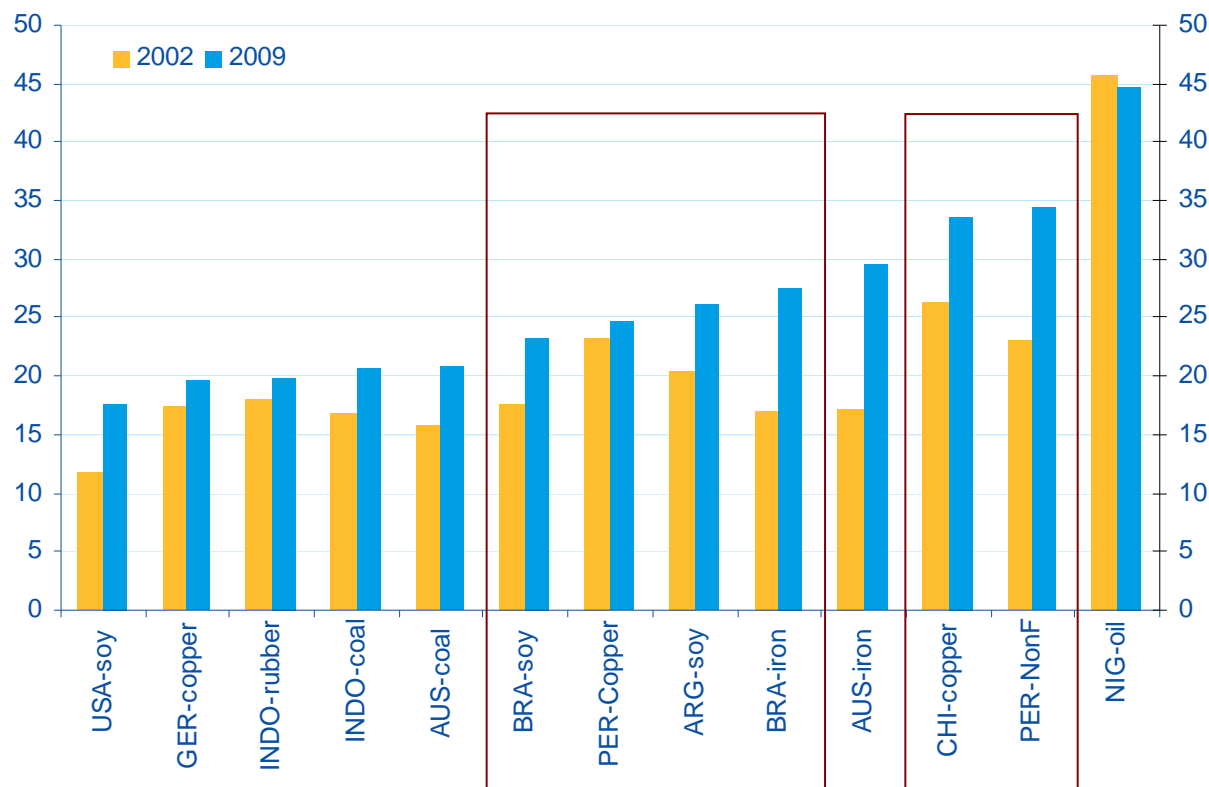


Concentration of exports to China into commodities not only happening in Latam

Trade relations with China are concentrated in three commodities but vulnerability is not the higher when compared to other countries

Relative export dependency on Chinese demand

(0 = no dependence, 100 = total dependence)



Source: Ferchen and García-Herrero. China Economic Quarterly

Key opportunity

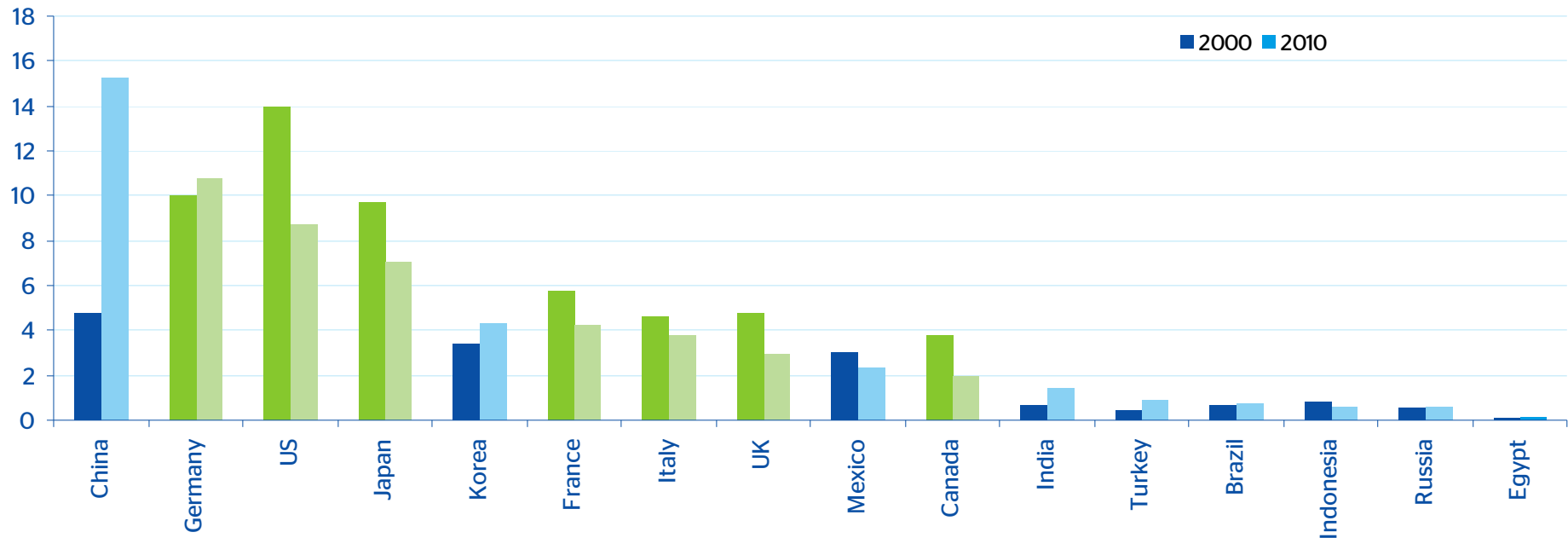
Rather than confronting – or ignoring China - engage with it before everybody else does!

China is huge and already here. No single country can change that reality

China is already the largest export power but not yet a global growth engine except for commodities. This should change over time as China increases the share of consumption in GDP. Furthermore, export structure will change

Share in World manufactured exports (percentage)

Source: BBVA Research and WDI



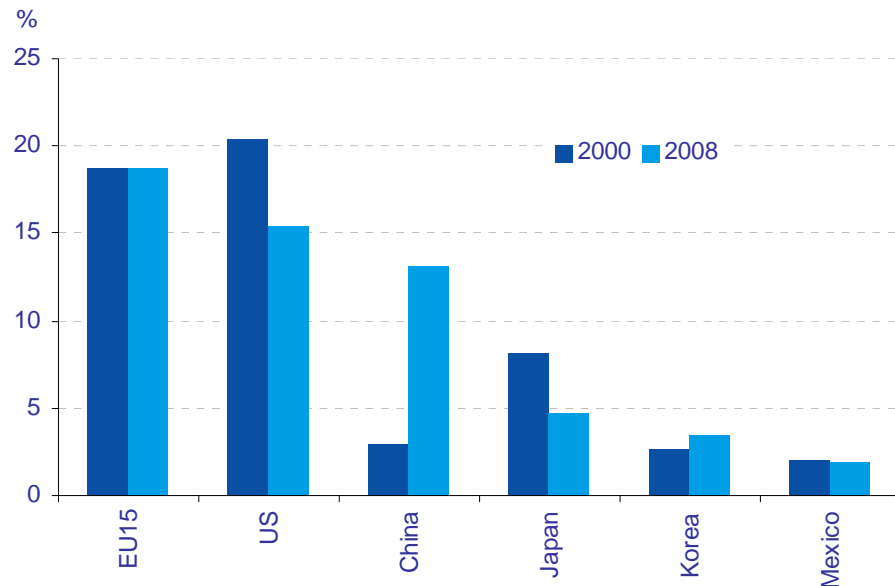
China's five year plan will transform the economy towards a high value added goods producer

China will follow the same process as Japan and Korea did many years ago: Low value added production will be reallocated to South East Asian economies
Competition to low value good producers will remain; blame is going to turn to others...

Export market share of R&D intensity Industries

(aerospace, electronics, instruments, office machines and pharmaceutical)

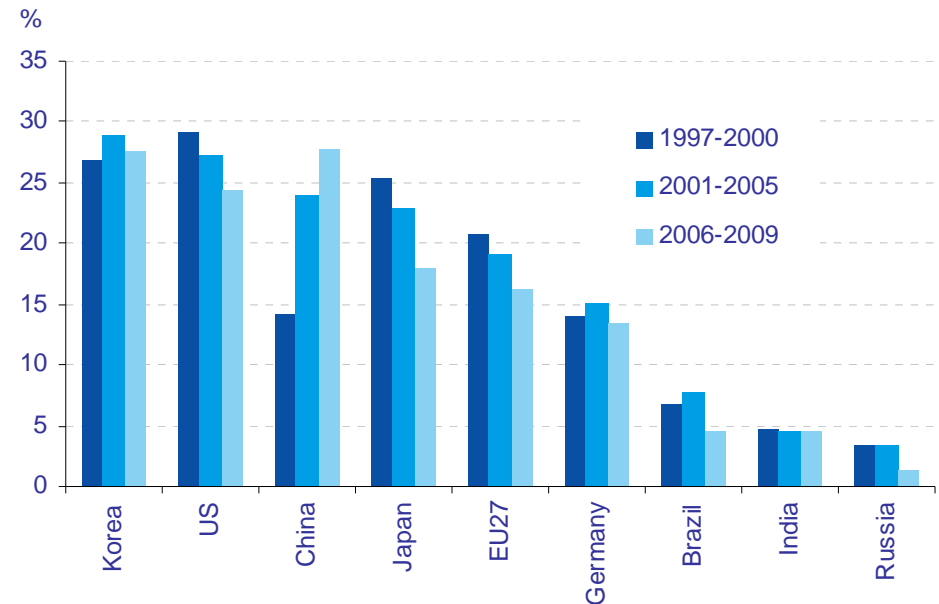
Source: Fu et al. (2010) and BBVA Research



Export market share of high-tech industries

(aerospace, office & computing equipment, communications equipment, drugs & medicines, scientific instruments, and electrical machinery)

Source: OECD and BBVA Research

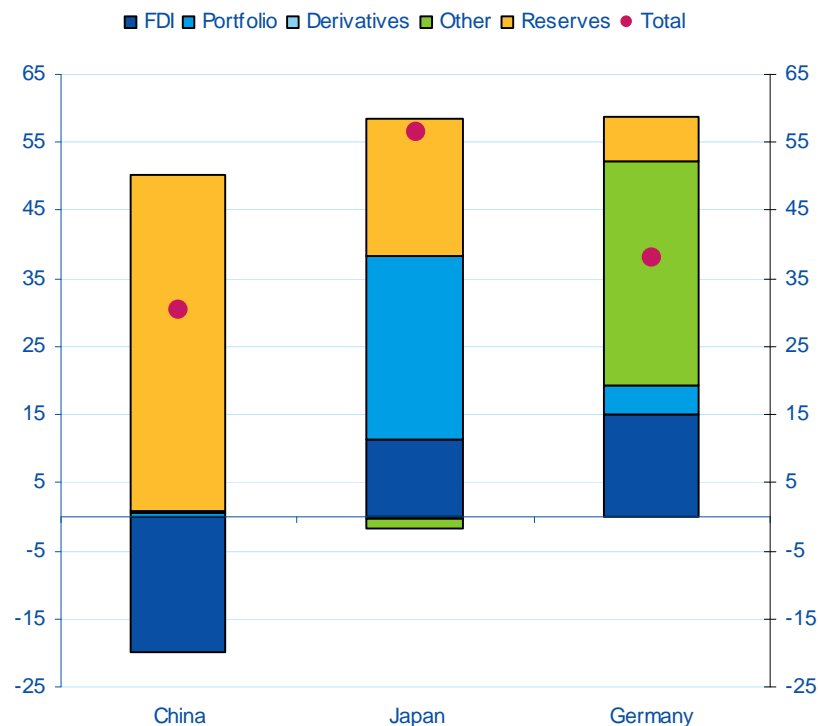


China to become a key FDI provider

China needs to diversify its hugely positive international investment position away from reserve assets to FDI and away from the developed world to the emerging world. This is a huge opportunity for Latin American economies. Furthermore, investment will also be gear to manufacture outside China and not only to extract commodities. Increasing cost of transportation also behind this.

International Investment Position 2010 (% of GDP)

Source: BBVA Research and IMF



Opportunities for LATAM: beyond commodity exports

- Huge increase in middle class in China and higher consumption to GDP will bring about huge demand for consumer products (and not only commodities)
- China will use FDI to cover some of the demand of the rest of the world in a decentralized way as Japan and Korea did. Huge opportunity for countries with large demand or access to large markets: Mexico – much less engaged with China so far - should not miss this opportunity!
- Finally China also has the financing muscle to help Latam finance its huge infrastructure needs.

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