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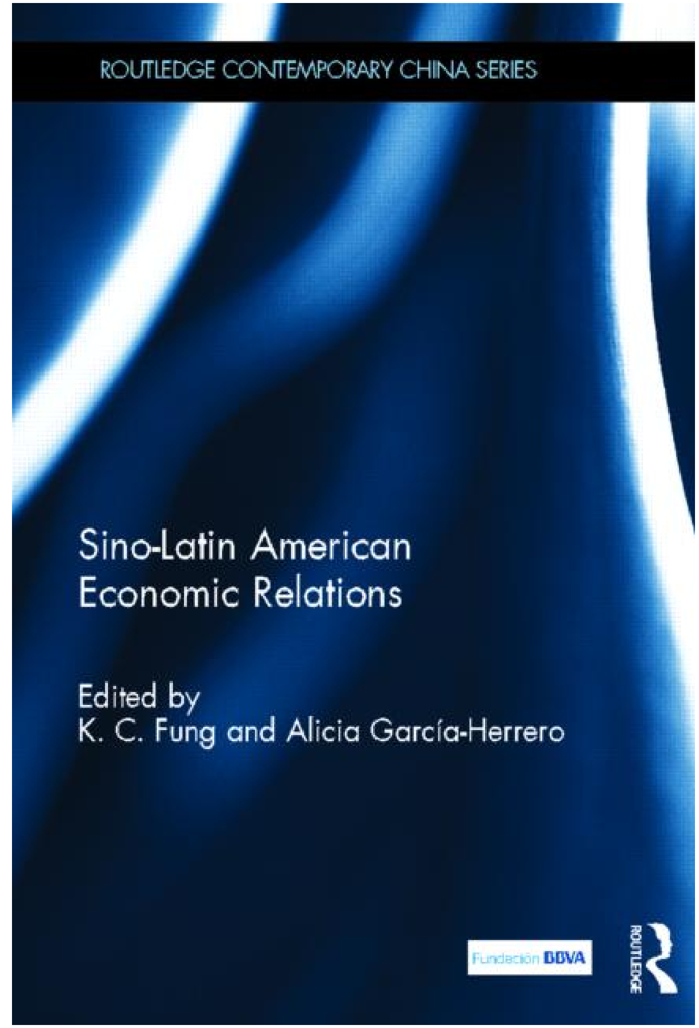
Sino – Latin American Economic Relations Main take-aways



Alicia García-Herrero

Chief Economist of Emerging Markets

BBVA Research

Beijing, May 2012

Outline

1. Putting the book in context:
   - How relevant are the two regions?
   - far with Sino–Latin American economic relations?

2. Quick overview to book chapters
   - Brazil - China
   - Mexico - China

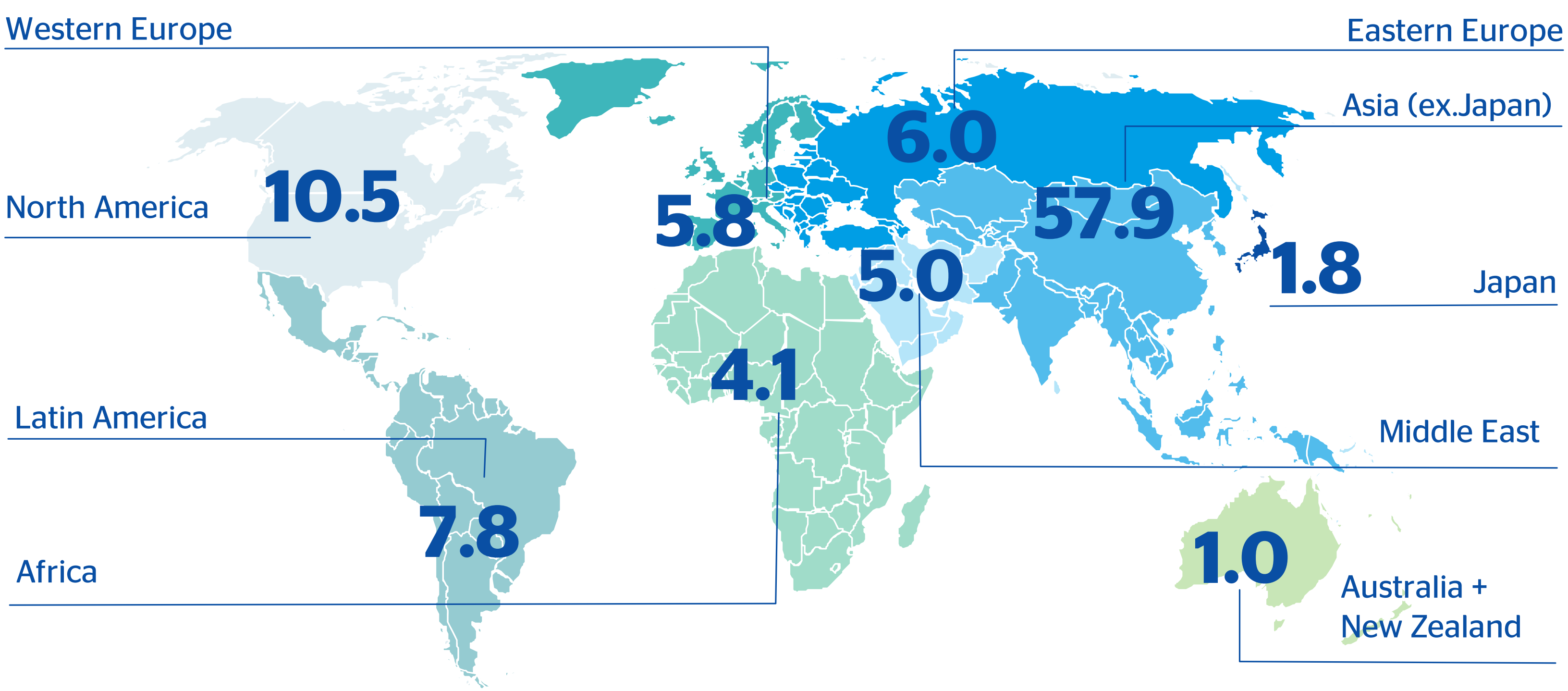
How relevant are the two regions?

The new global economic order will be Asian and specially Chinese

- Emerging Asian economies to contribute close to 58% to global growth in next 10 years
- China is the highest contributor with almost 30% of global growth

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

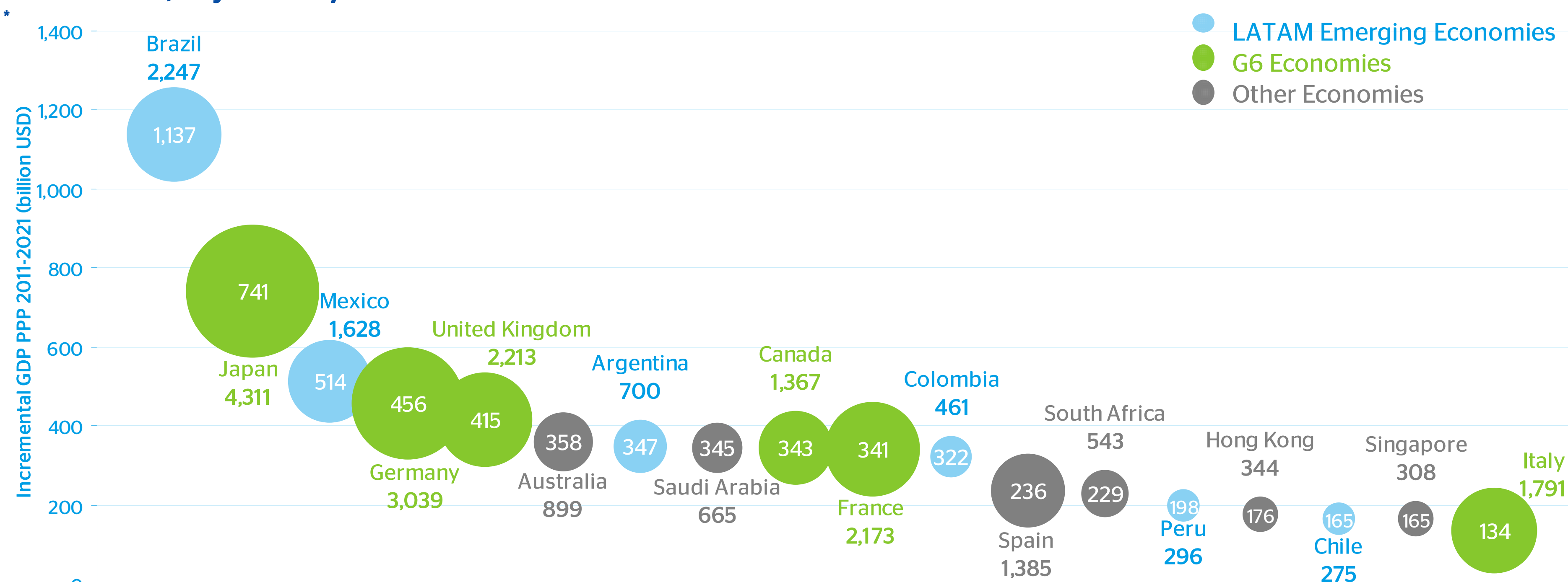
Source: BBVA Research and IMF WEO



Latin America is not irrelevant, even for China

- 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)**



* Current size is indicated by the size of the circle as well as the number below the country's name

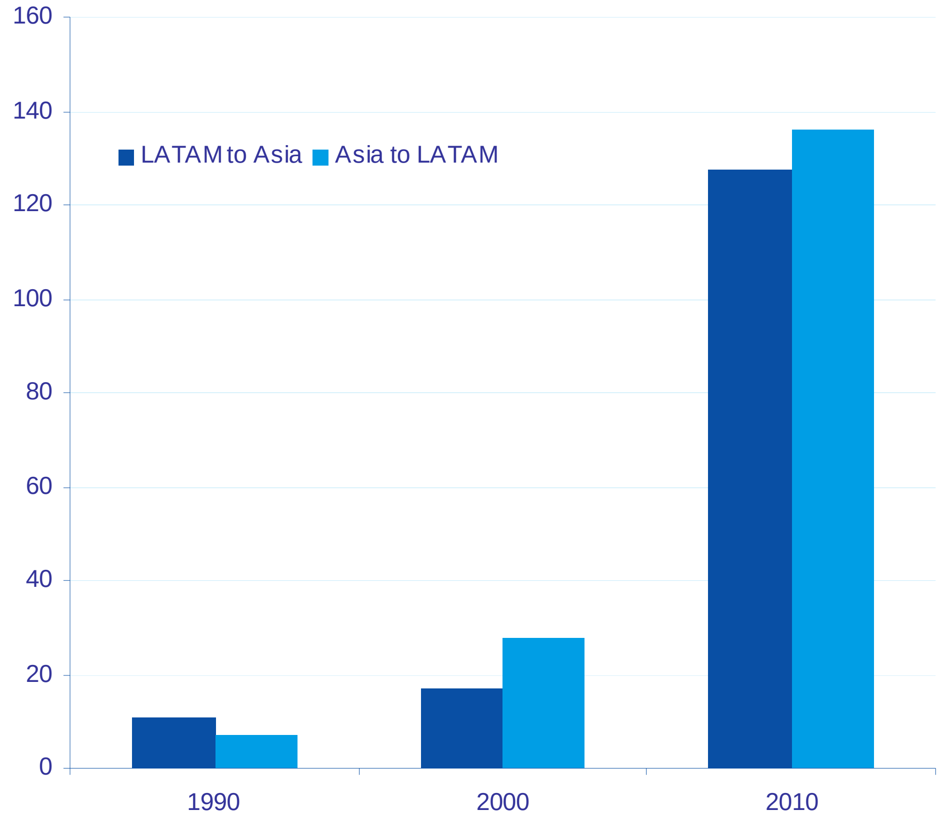
** Incremental GDP is found in the number inside the circle

Source: BBVA Research and IMF WEO

Latin American relevance more dependent on Asia, particularly China

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

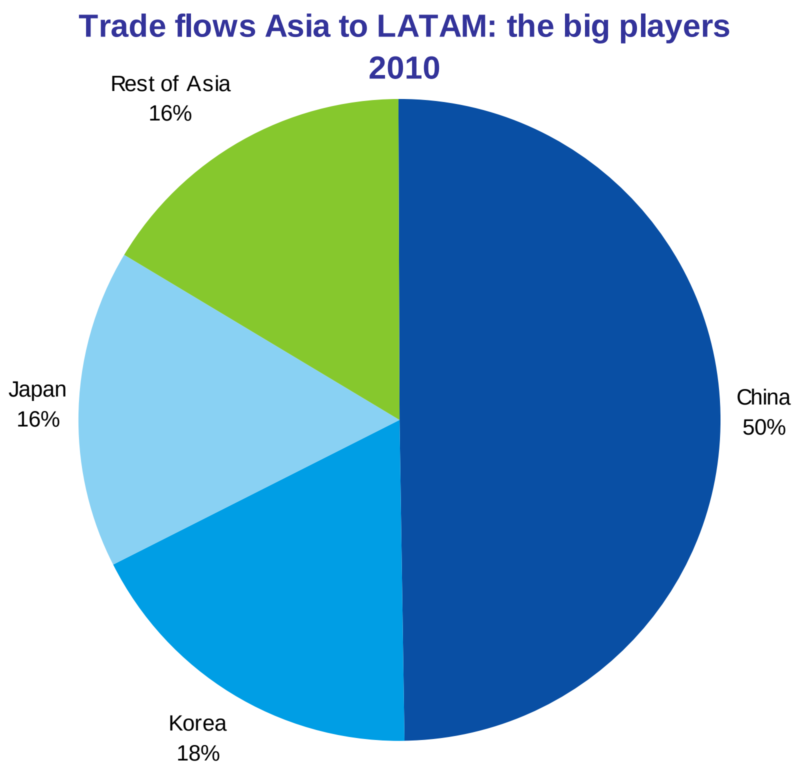
Trade flows between Asia and LATAM 7 (billion USD)
Source: BBVA Research and COMTRADE

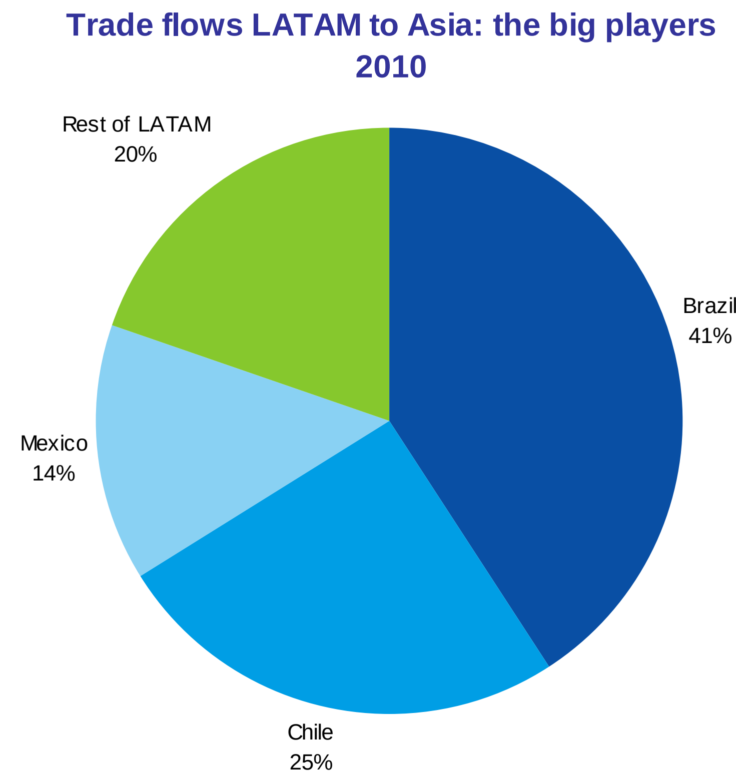


China is the key trading partner but also Korea and Japan are relevant

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





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

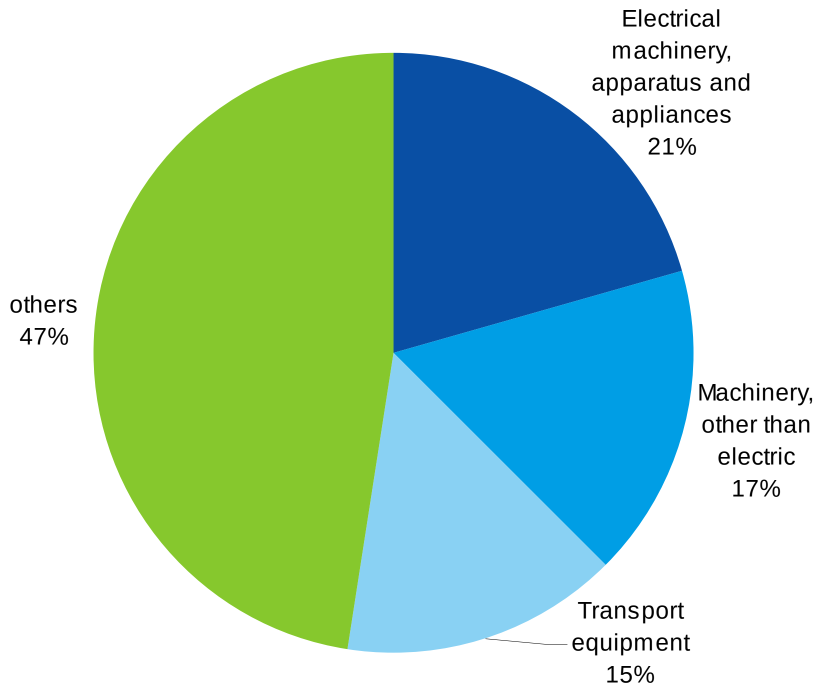
Country	Export to China		Import from China	
	2000	2010	2000	2010
Argentina	6	2	4	2
Brazil	12	1	11	2
Chile	4	1	4	1
Colombia	36	2	9	2
Mexico	19	3	6	2
Peru	2	1	9	2
Venezuela	35	7	18	2

Comparative advantage behind trade patterns

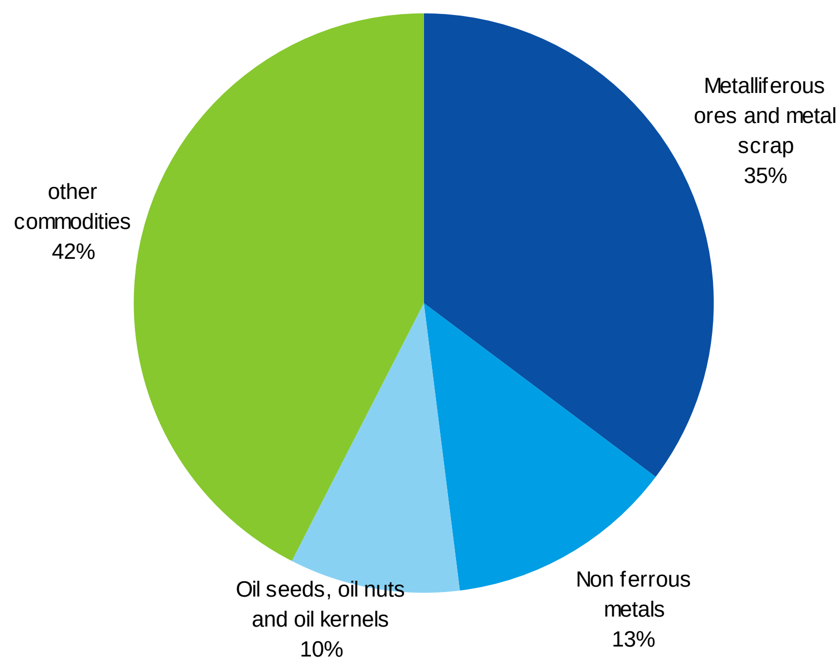
LATAM exports concentrated on commodities: iron ore, soybean, copper, paper and food for animals

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



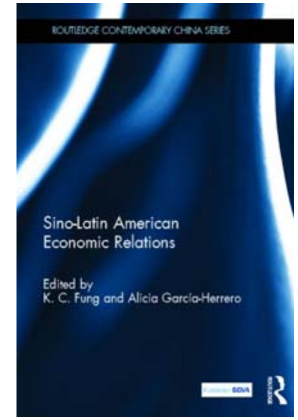
The book:

1. Seven theme chapters
2. Two case studies

Brazil

Mexico

Book thematical chapters

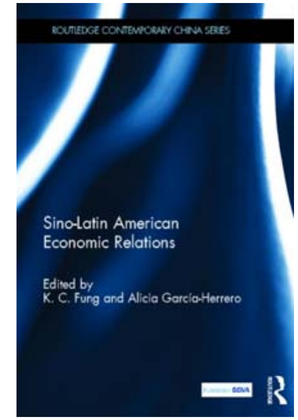


1. Possibility of economic cooperation beyond resource and manufacturing complementarity. *Masahiro Kawai and Fan Zhai (ADBI)*
2. Determinants of trade between two

   Rolando Avendaño and Javier Santiso (OECD)
3. Is India the next big thing for Latin America?:

   China and India's trade. *Anthoni Estevadeordal, Mauricio Mésquita Moreira, Christian Volpe Martincus and Juan S. Blyde (IADB)*

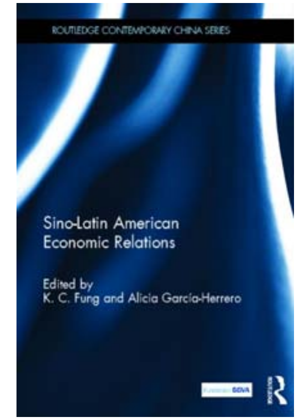
Book thematical chapters



4. Production sharing in Latin America and East Asia. *K.C. Fung, Alicia García-Herrero and Alan K. F. Siu BBVA & HKU)*

5. Financial access of SMEs in Latin America: lessons for China. *Jing Gao (CASS)*

Book thematical chapters

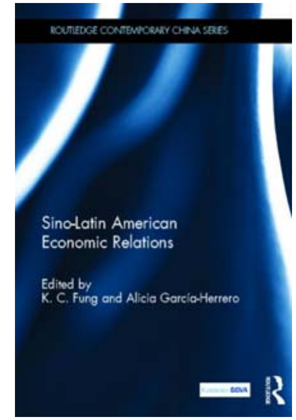


6. The Latin America experience in pension system reform: coverage, fiscal issues and possible implications for China. *Daniel Titelman, Cecilia Vera and Esteban Pérez Caldentey (CEPAL)*

7. A comparison of Chinese outward direct investment with its regional peers: Japan, South Korea and Taiwan.

   K.C. Fung, Alicia García-Herrero, Ya-Lan Liu and Alan K. F. Siu (BBVA & HKU)

Case Studies



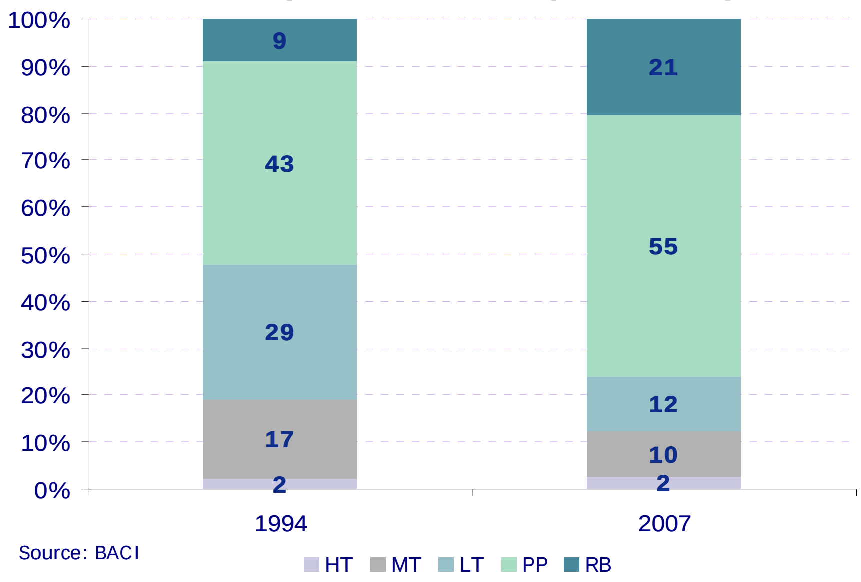
- The impact of the emergence of China on Brazilian international trade

  Enestor Dos Santos and Zoledad Zignago (BBVA)

Will China's emergence de-industrialize Brazil?

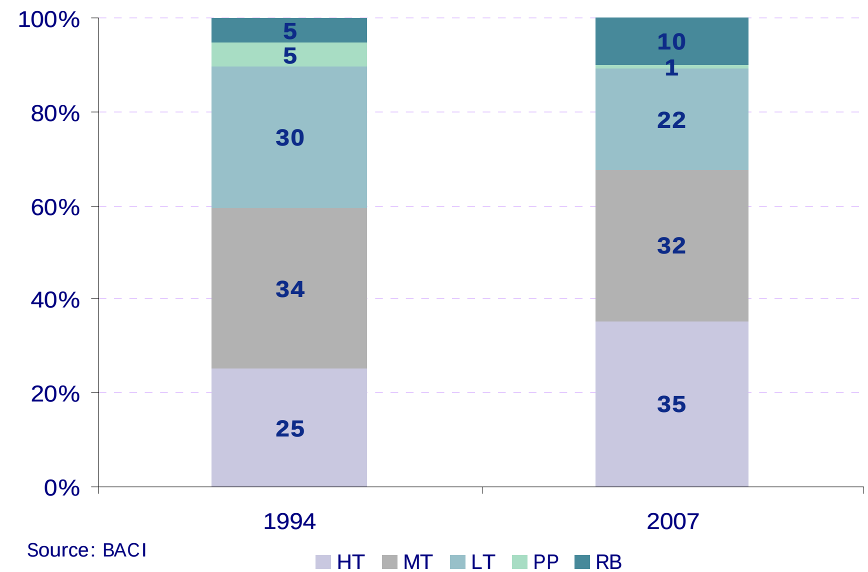
Looking at the technological dimension of the dataset we show that Brazil (increasingly) exports to China products with lower technological content and (increasingly) imports products with higher technological content.

Brazilian Exports to China by Technology-Content (share of total exports; in %)



Source: BACI

Brazilian Imports from China by Technology-Content (share of total exports; in %)

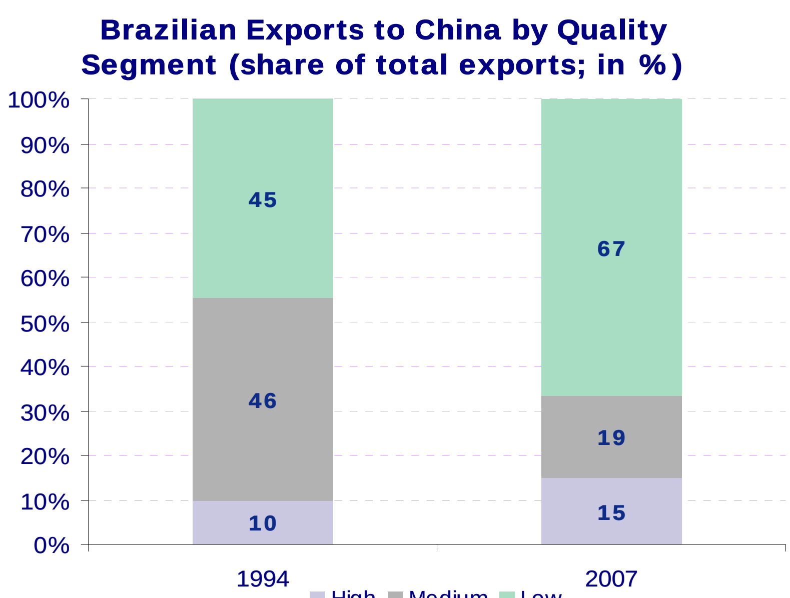


Source: BACI

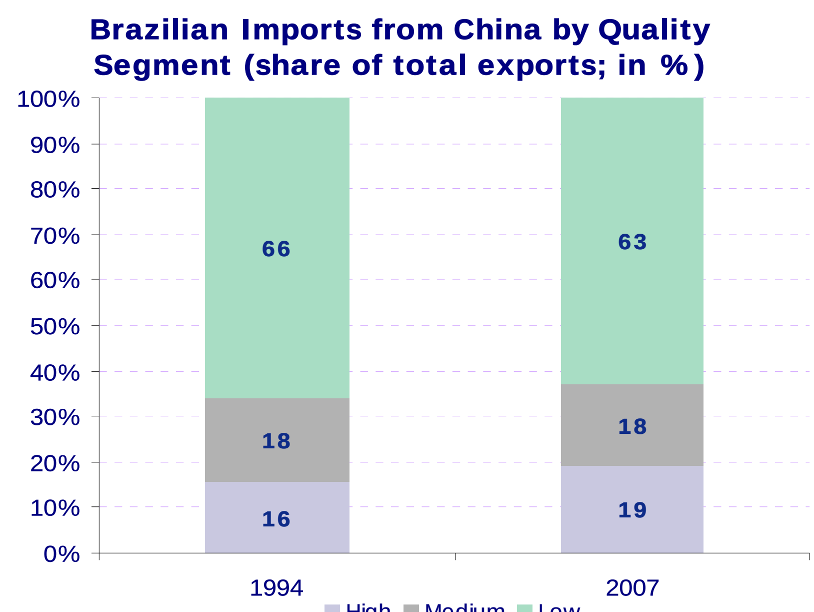
More than technology: looking at quality

Incorporating the “quality” dimension (intra-industry international trade and, thereby, competition in a process of vertical differentiation and quality upgrading.

The quality dimension reveals that both countries export to each other basically low-quality goods (i.e. products whose unit value are in the lower range of world’s distribution of unit-values for the product).



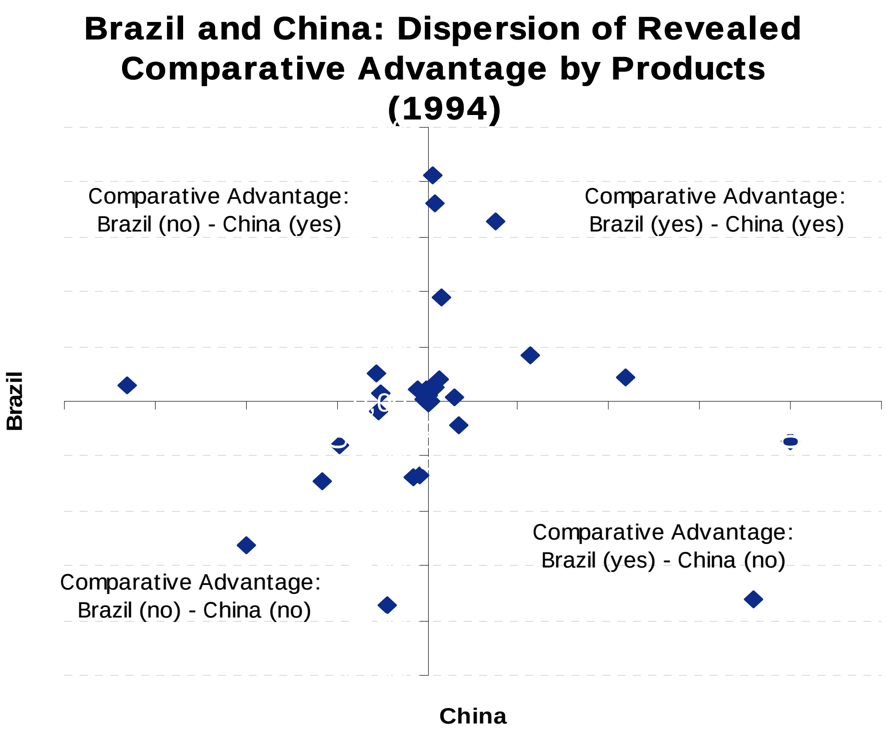
Source: BACI

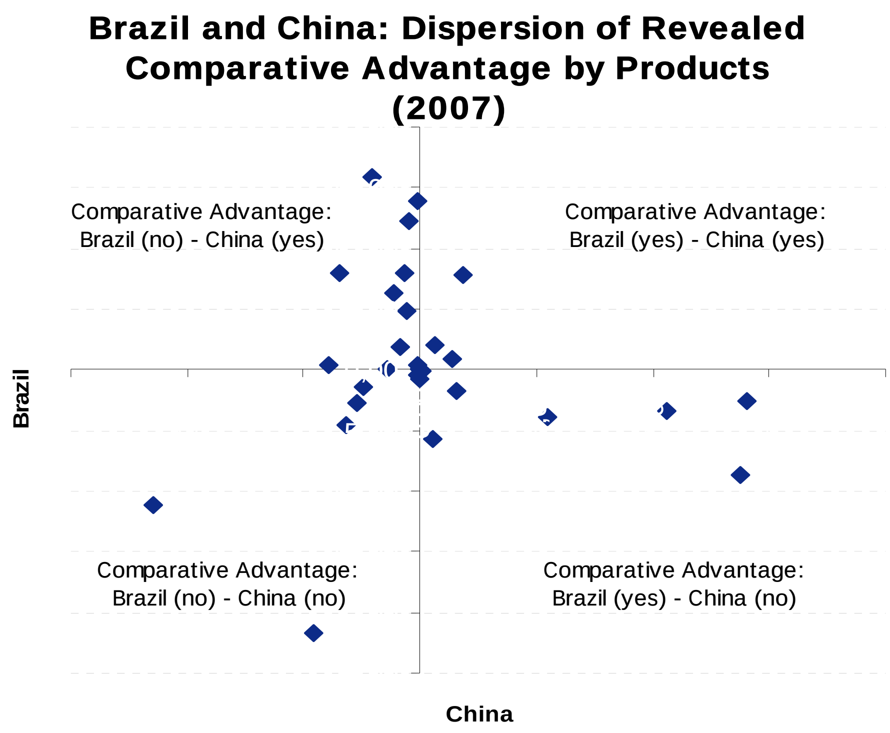


Source: BACI

More specialization and in line with comparative advantages

The overlapping in exports is limited and degree of competition relatively small. Furthermore, countries increased their advantage in the products in which they already had advantage in 1994 and lost advantage in the sectors in which they had small advantage in producing in 1994: Lots of persistance!

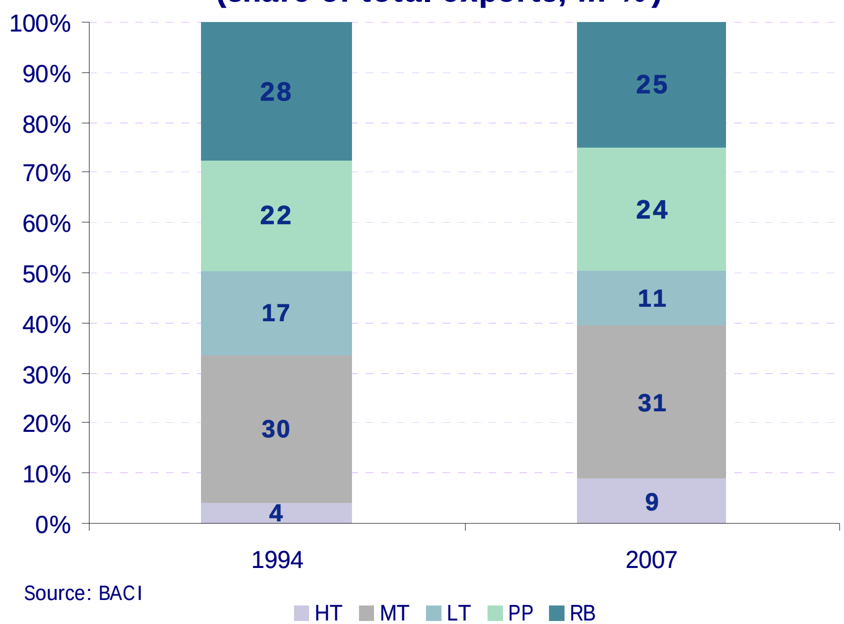




Weak evidence of deindustrialization

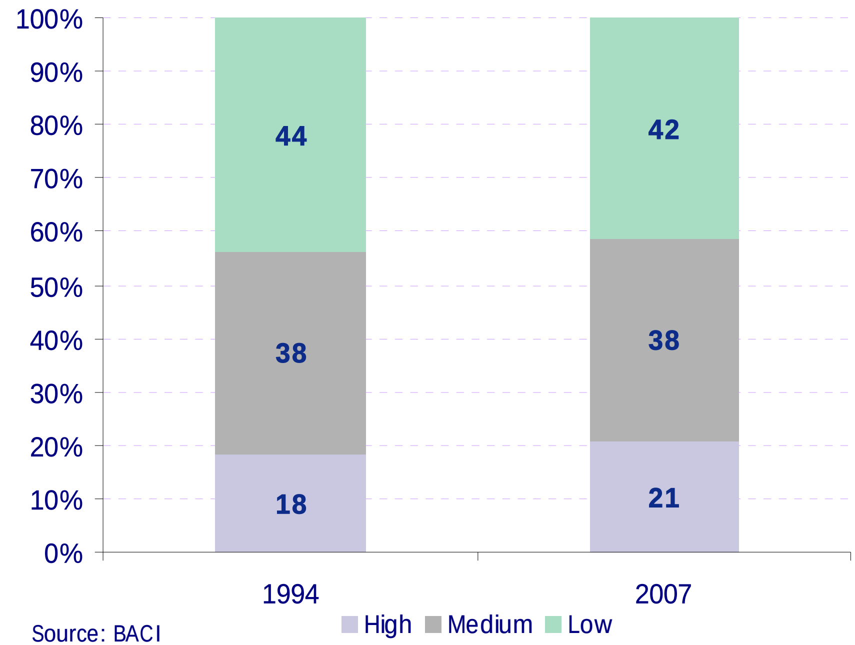
Brazilian exports of high technological content and high quality increased more than the average and more than low technological and low quality exports in the last years. Overall, the emergence of China has been supporting a displacement of Brazilian exports not only towards natural based products but also to goods with higher quality and higher technological content.

Brazilian Exports by Technology-Content (share of total exports; in %)



Source: BACI

Brazilian Exports by Quality Segment (share of total exports; in %)



Source: BACI

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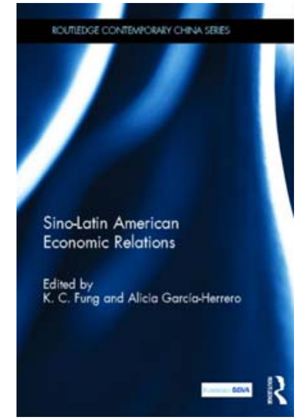
Case Studies



- China and Mexico in the US market: challenges and opportunities

  Cecilia Posadas Pérez BBVA Bancomer

China & Mexico: Trade Outlook

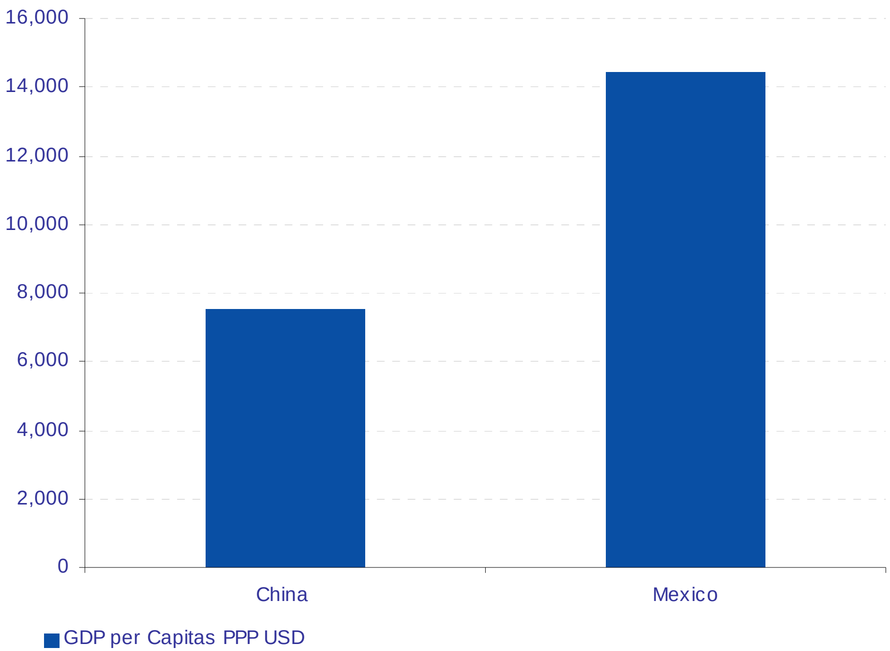
China & Mexico are two of the world's most important emerging markets

- Mexico has higher income per capita, but China is quickly catching up due to its faster economic growth

China & México: GDP per capita in 2010

(thousands of dollars)

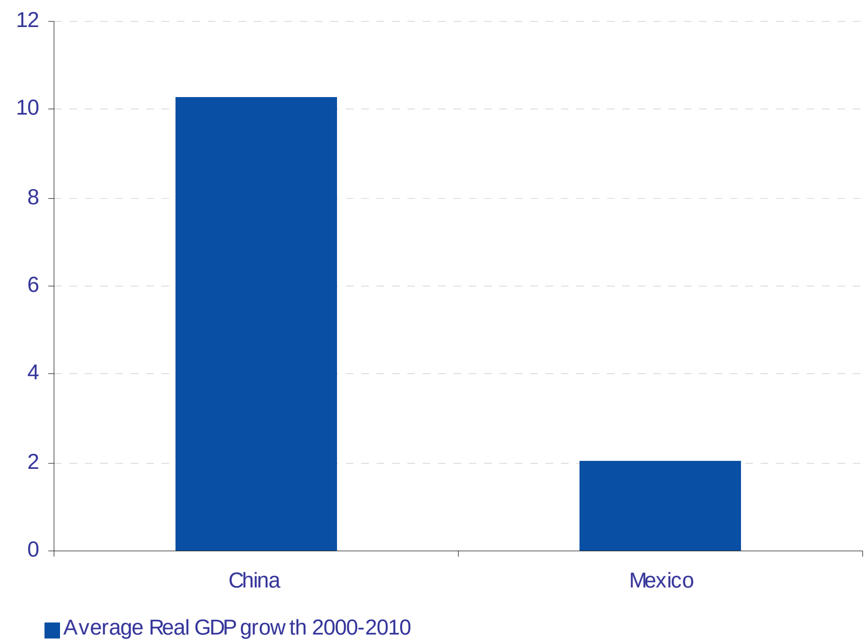
Source: Haver analytics



China & México: Average real GDP growth between 2000 and 2010

(Annual % change)

Source: Haver analytics

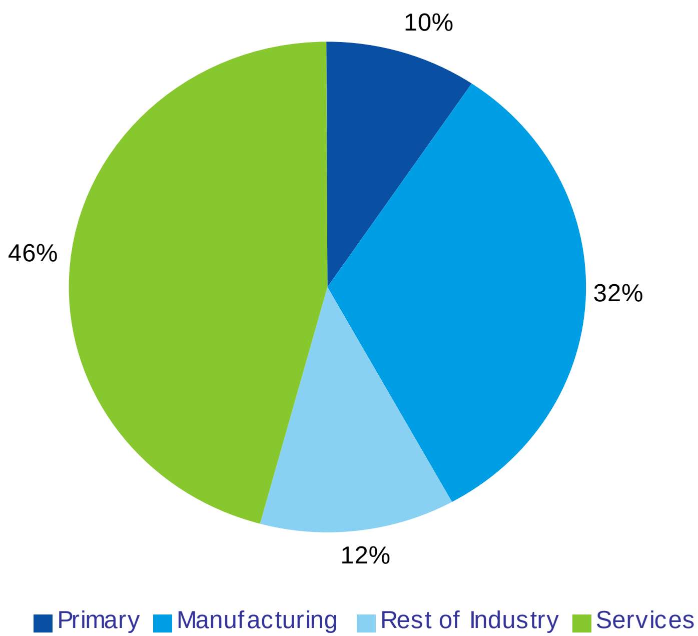


China & Mexico: Trade Outlook

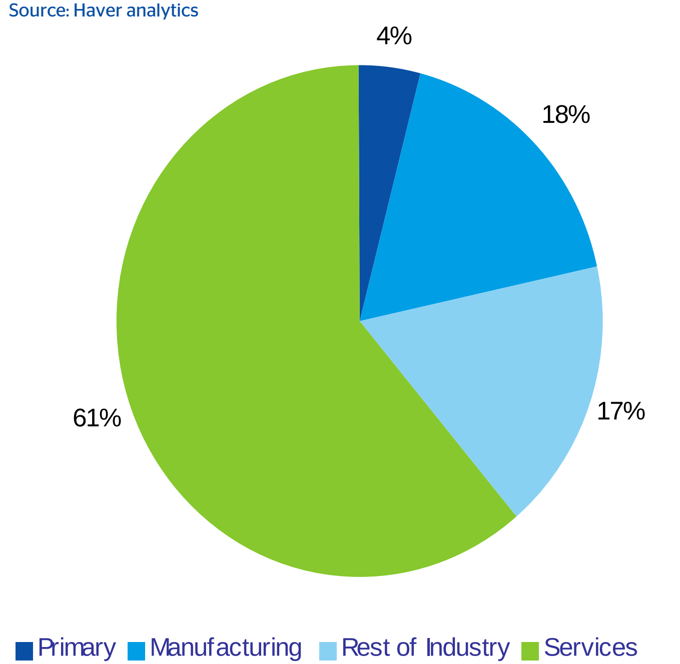
China & Mexico are two of the world's most important emerging markets

- Industry, manufacturing in particular is an important part of both economies, however services are more important in Mexico.

China: Value Added by Sector
(% of GDP)
Source: Haver analytics



Mexico: Value Added by Sector
(% of GDP)
Source: Haver analytics

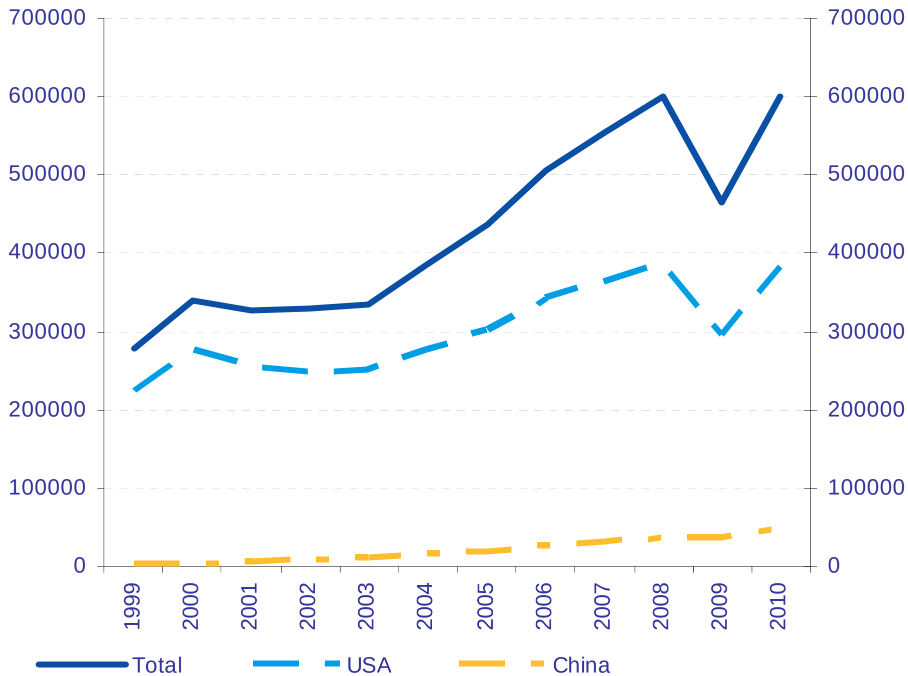


China & Mexico: Trade Outlook

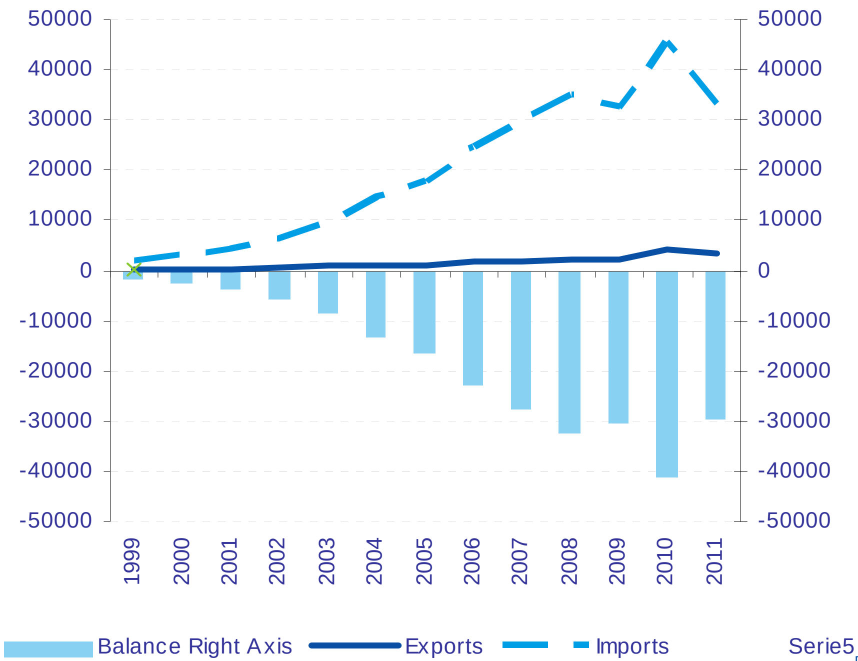
Trade between China & México has increased during the last 10 years

- Trade between them accounted for 8.3% of Mexico's foreign trade in 2010
- Mexico imported 33.2 billion and exported 3.5 billion to/from China in 2010
- The trade is balance favors China considerably

Mexico: Foreign merchandise trade (exports+imports)
(Billions of USD)
Source: INEGI

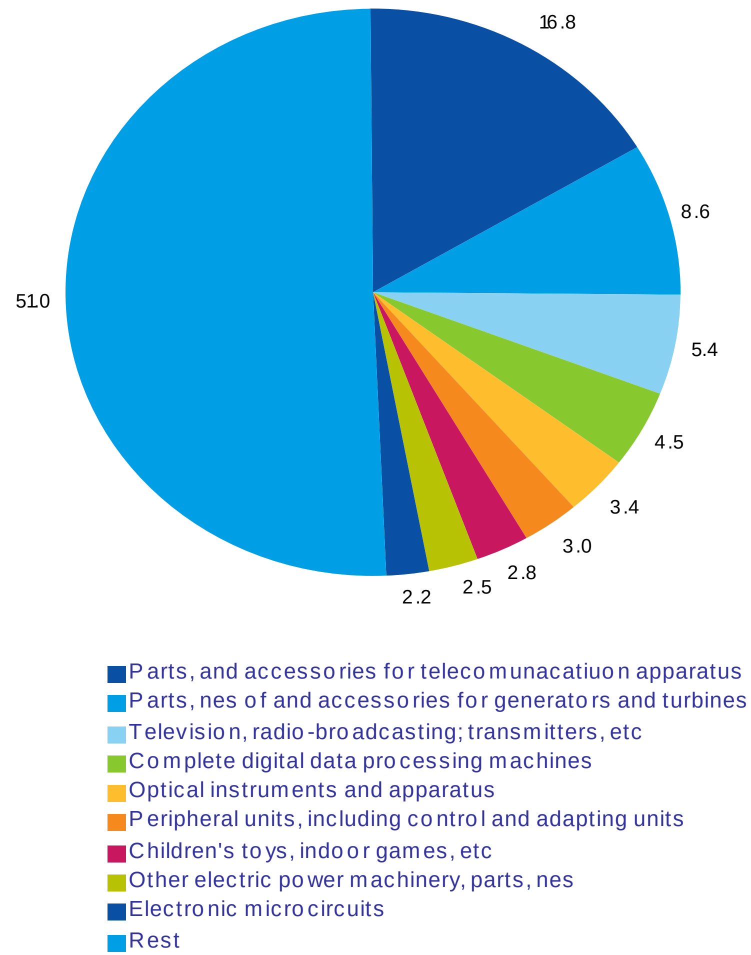


Mexico: exports, imports & trade balance with China
(Billions of USD)
Source: INEGI



China & Mexico: Trade Outlook

About 50% of Mexico’s imports from China are electric components probably used in the production of more sophisticated products for re-exportation.



Source: ECLAC year 2010

China & Mexico: Trade Outlook

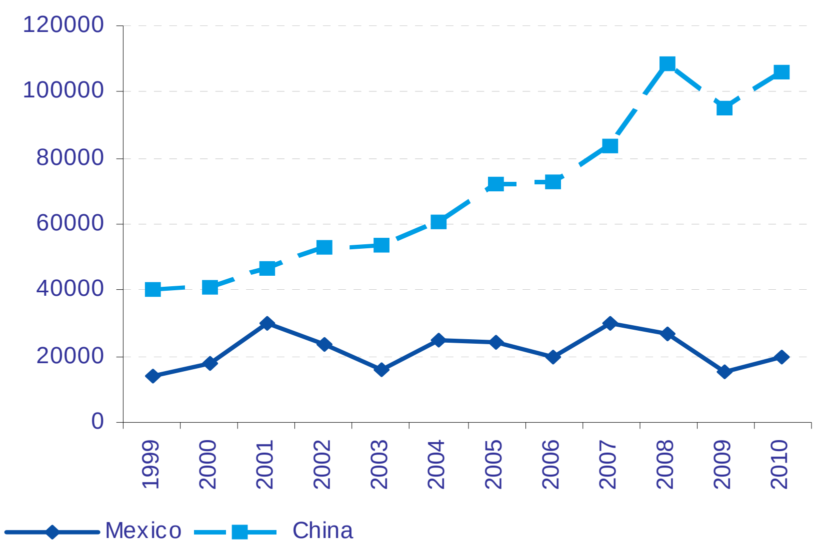
China & Mexico are important recipients of FDI

- Together they accounted for 8.5% and 1.5% of the total FDI in the world
- However despite signing a mutual investment protection agreement in 2009, flows towards each other remain small.

China & Mexico: Foreign Direct Investment Inflows

(Billions of USD)

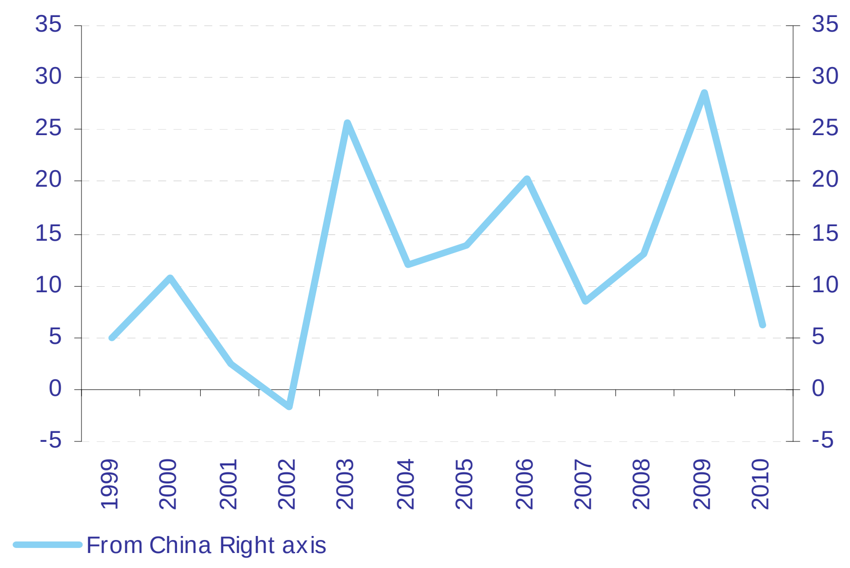
Source: SE & UNCTAD



Mexico: FDI Inflows from China

(Billions of USD)

Source: INEGI

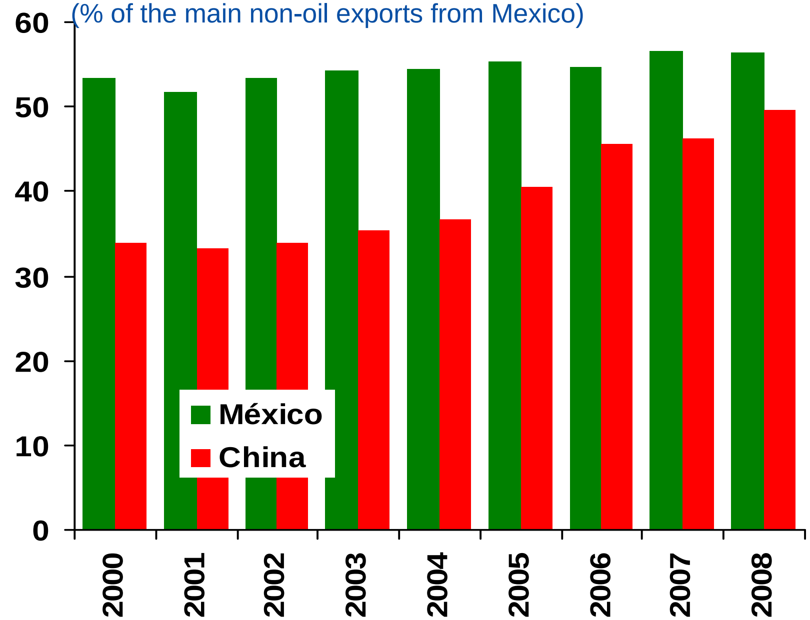


China & Mexico: Trade Outlook

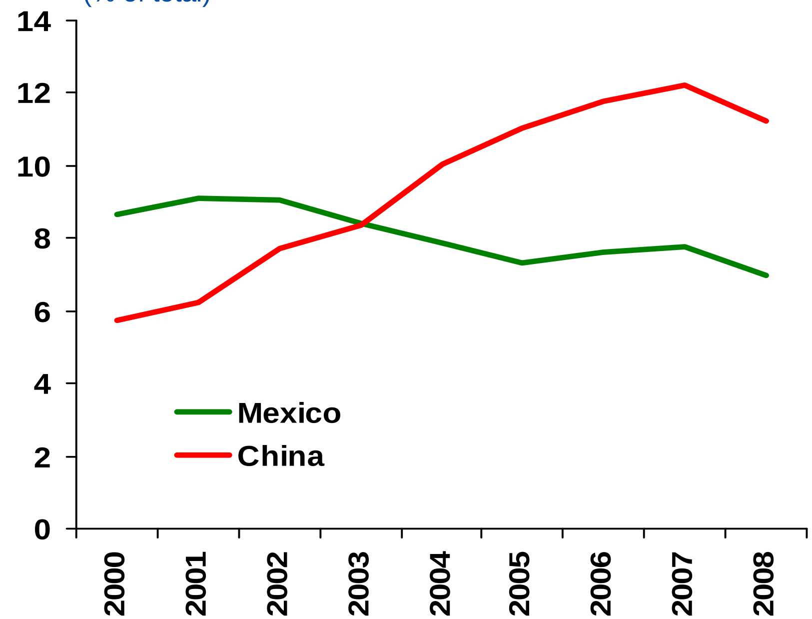
In contrast with Mexico's main exports to the US, Chinese products tend to gain Comparative Advantage

- China has consistently gained Comparative Advantages in the main Mexican exports to the US, while in Mexico the ratio of products with competitive advantage has remained relatively constant.
- Chinese products are more competitive as its growing share in the US market suggests

Products with IVCR higher than one
(% of the main non-oil exports from Mexico)



Share in the US market
(% of total)



What China means so far for MX

- Important Chinese competition in the US market, particularly since it joined the WTO.
- Mexico has not been the most affected country with the arrival of China US trade. Canada has done even worse.
- Around 40% of the non-oil exports of Mexico have lost comparative advantage between 2005-2008 in relation to 2005-2008
- In contrast, among the Mexican products with higher share in the US market, China has gained advantage consistently since 2001.
- The combination of this phenomena is correlated with the stagnancy of the Mexican market share an the raise in China's
- In some products (29 out of 38), the loss of comparative advantage is directly linked to China's gain.
- In determined products of sectors like road vehicles, optical instruments and mechanical devices, among others, Mexico doesn't appear to have Chinese competition.
- In contrast, determined products like toys, textile and plastic sectors, the comparative advantage is without doubt Chinese.
- A third group of products are those where the advantage for one or the other is significant but weak. Among this we highlight Mexico's reduction and/or China's raise in TV's, electrical conductors, telephone devices, etc.

A more positive view on Mexico-China relation

Mexico as a regional production hub with investment from China

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

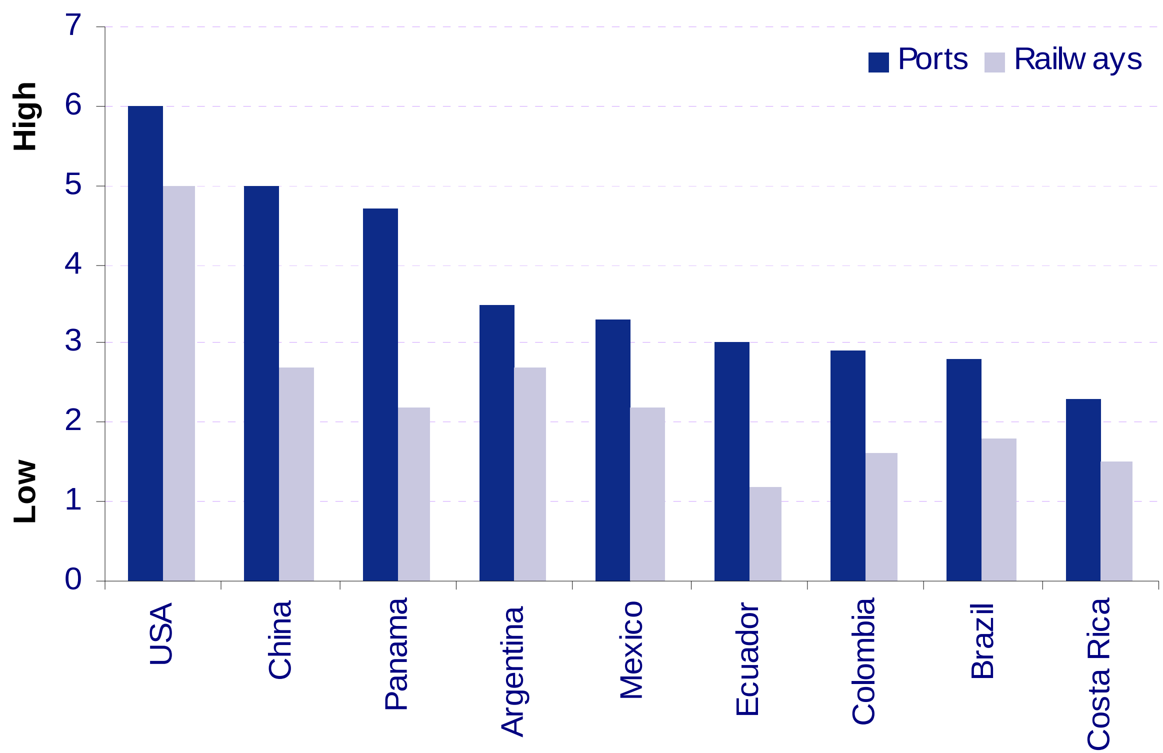
Latin America is and will continue to be an important market for China/HK (export diversification and provision of services).

Infrastructure for trade is key

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



Although there are challenges Mexico is a great opportunity within Latam

- Its macroeconomic situation is among the soundest
- It is less dependent on Asia and, thus, a better diversification of risks
- Infrastructure projects are huge and interesting enough
- Mexico should take advantage of its geographic location. Becoming a hub for Chinese FDI is the easiest way to be part of the new value chain.

Overall, opportunities for LATAM: beyond commodity exports

- Huge increase in middle cass 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 opportunitiy 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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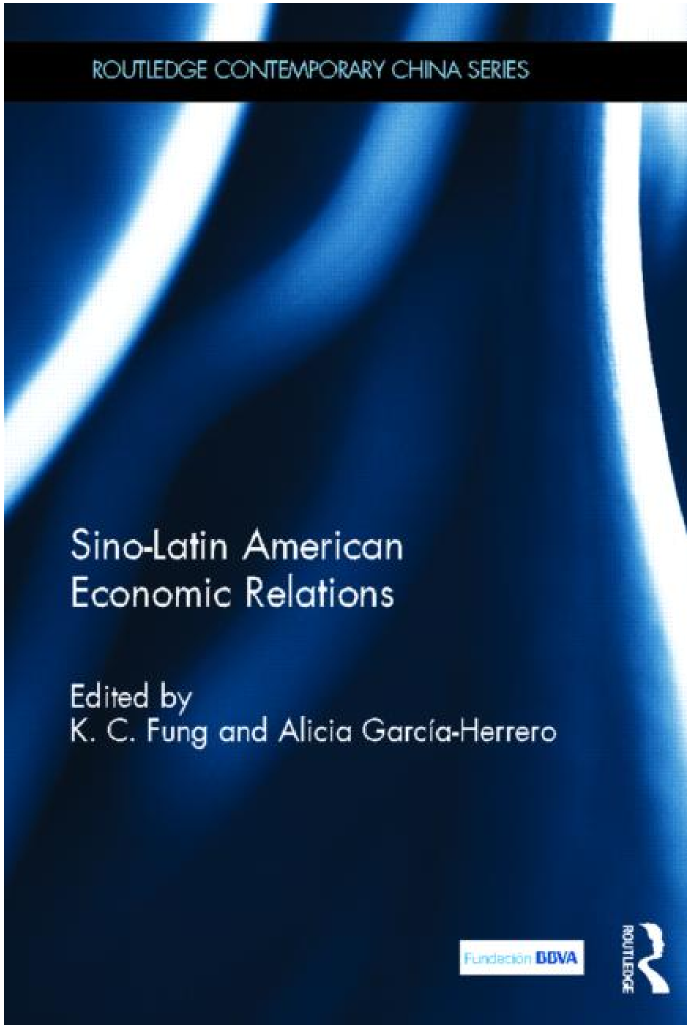
Sino – Latin American Economic Relations Main take-aways



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