

The Century of China with a Latin American touch

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Outline

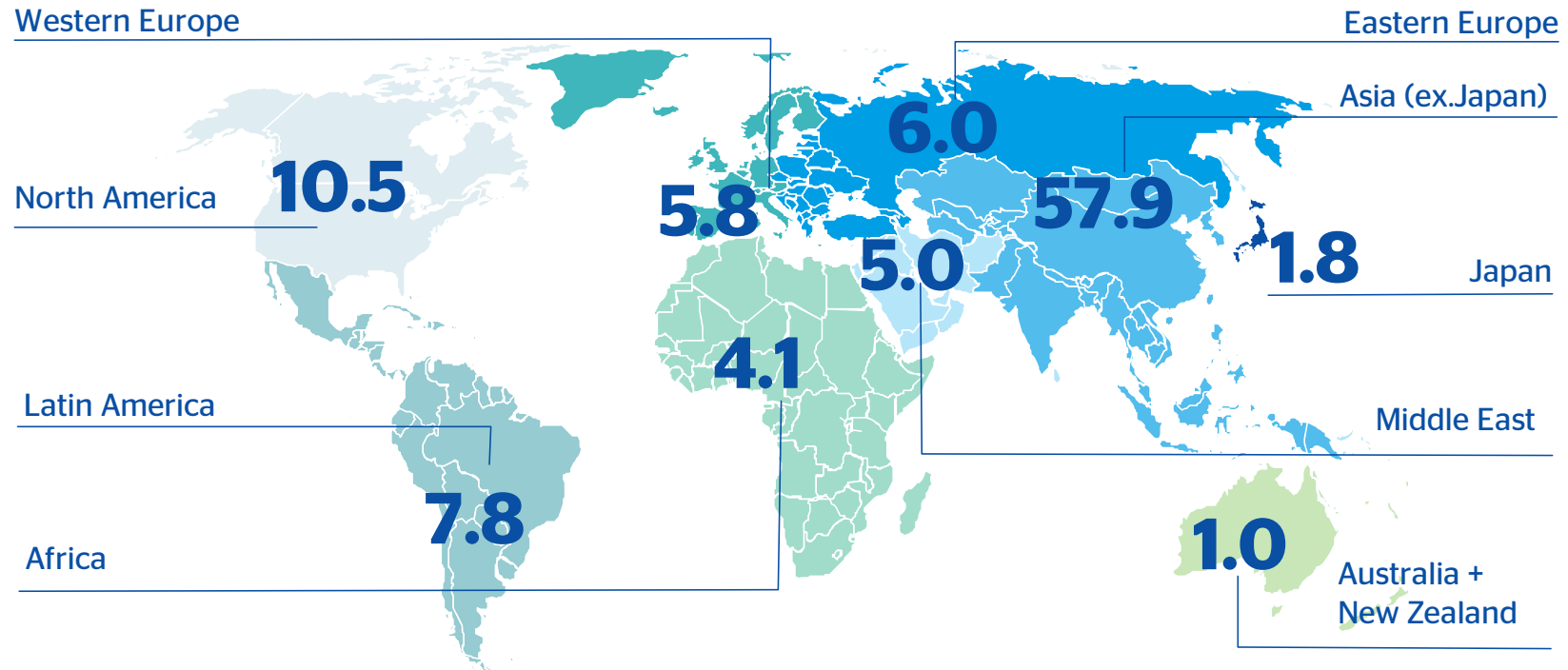
- 1 This will be the century of Asia led by China**
- 2 Growing economic relations between China and Latam but also challenges
- 3 What to expect from the Latin American economies in the next couple of years?

The new global economic order will be Asian and especially Chinese

- China is the largest contributor with 34% of global growth followed by India with 12%
- Latin America is the second most important emerging region

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

Source: BBVA Research and IMF WEO



What is BBVA EAGLEs?

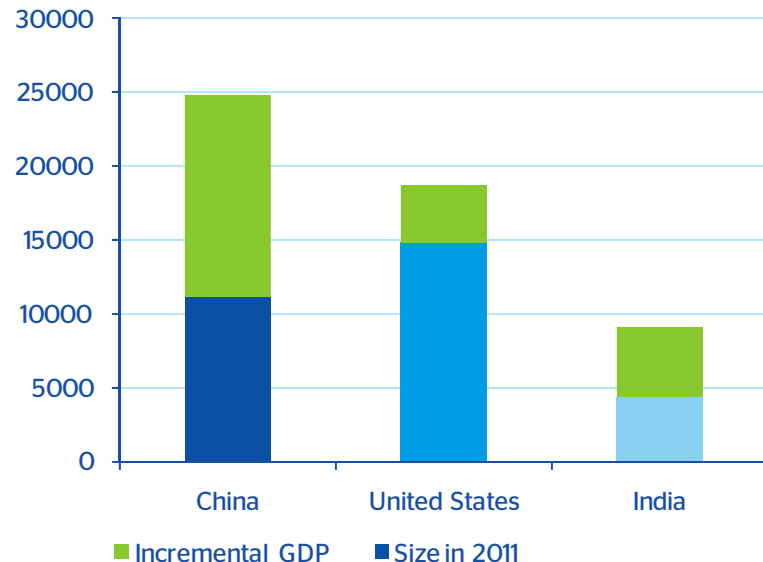
- Concept introduced by BBVA Research 15 months ago to provide investors with a more rigorous and dynamic approach to selecting key Emerging Markets (EM)
 - Why rigorous
 - Why dynamic

China & India the largest EAGLEs

- China is playing in a league of its own
- India would have a larger contribution to GDP growth than the US

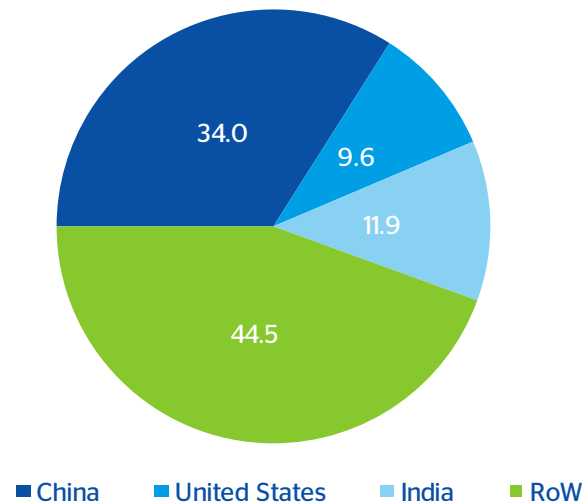
Global Leaders in the next 10 years: GDP adjusted by PPP (billion USD)

Source: BBVA Research and IMF WEO



Global Leaders in the next 10 years: contribution to World economic growth 2011-2021 (%)

Source: BBVA Research and IMF WEO

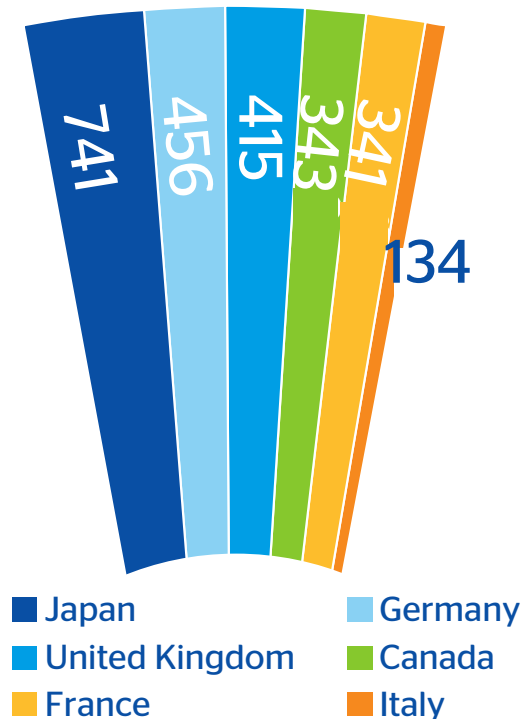
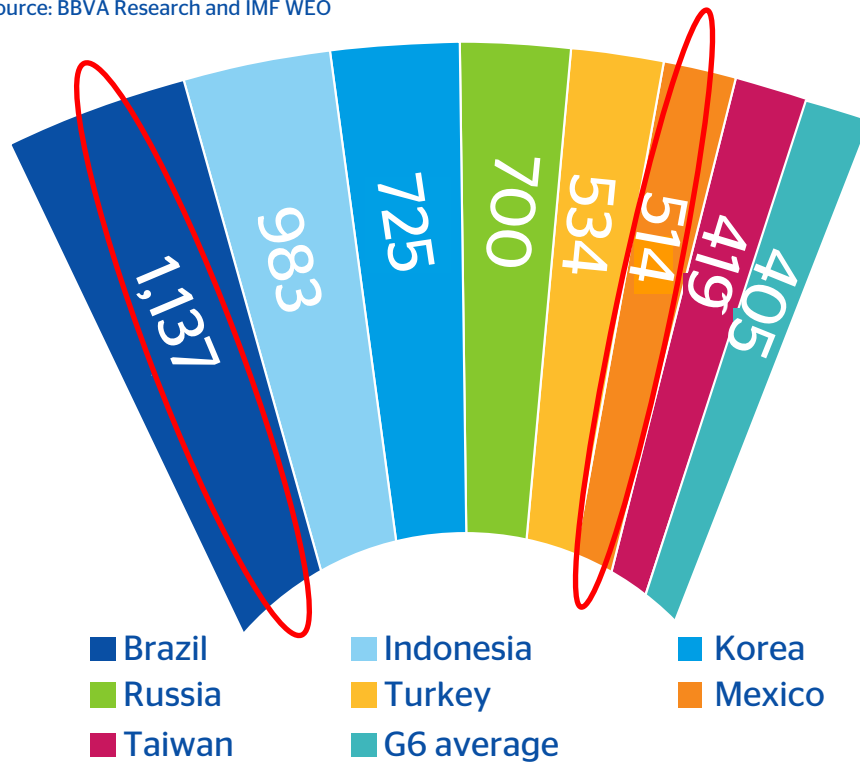


Other EAGLEs are also global players

BBVA EAGLEs: China, India, Brazil, Indonesia, Korea, Russia, Mexico, Turkey and Taiwan

EAGLEs (excluding China and India) vs G6: Incremental GDP 2011-2021 (billion USD, adjusted by PPP)

Source: BBVA Research and IMF WEO

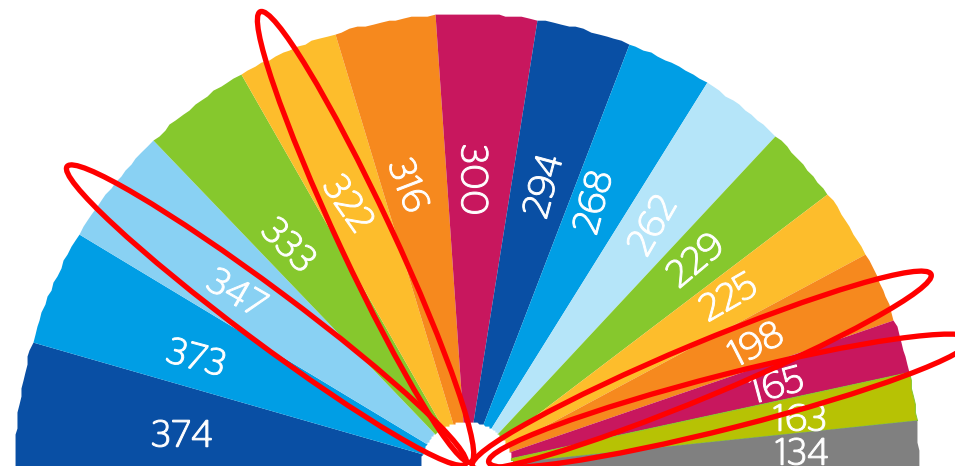


The Nest a watch list of potential EAGLEs

- As many as 15 economies in the Nest (contributing more to global GDP than smallest G6, Italy)

Nest: Incremental GDP 2011-2021 (billion USD, adjusted by PPP)

Source: BBVA Research and IMF WEO



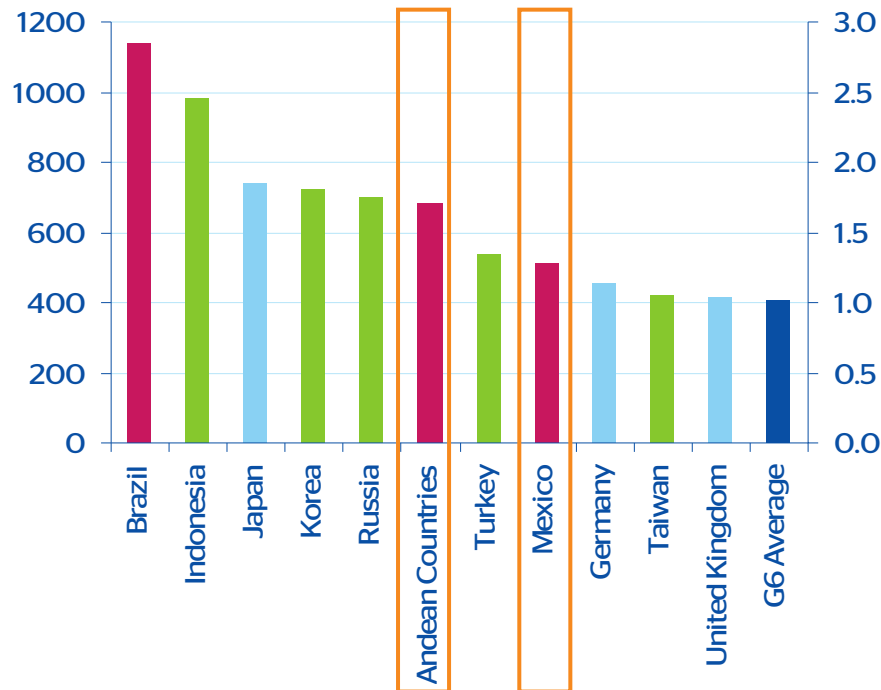
■ Egypt	■ Thailand	■ Argentina	■ Nigeria	■ Colombia
■ Poland	■ Vietnam	■ Pakistan	■ Bangladesh	■ Malaysia
■ South Africa	■ Philippines	■ Peru	■ Chile	■ Ukraine
■ Italy				

The Andean countries: if considered as a bloc, it would be another EAGLE in LatAm

- Colombia, Peru and Chile are Nest countries, which have an expected annual growth rate around 5% in the next 10 years
- The 3 economies are all keen on reforms, willing to promote economic policies and eager to increase their international presence (now in the center of Asia Pacific)

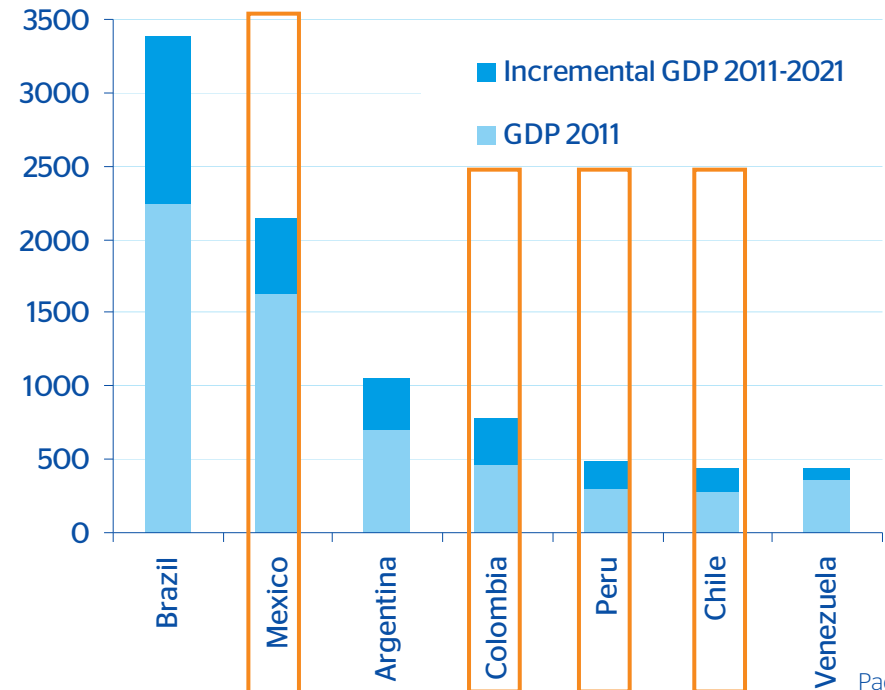
Incremental GDP adjusted by PPP (billion USD) and contribution to World economic growth 2011-2021 (%)*

*The graph excludes China (USD 13,718 billion, 34%) and India (USD 4,820 billion, 11.9%)
Source: BBVA Research and IMF WEO



LatAm: current economic size and incremental GDP 2011-2021 in billion USD adjusted by PPP

Source: BBVA Research and IMF WEO



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

China's ranking as trade partner in Latin America

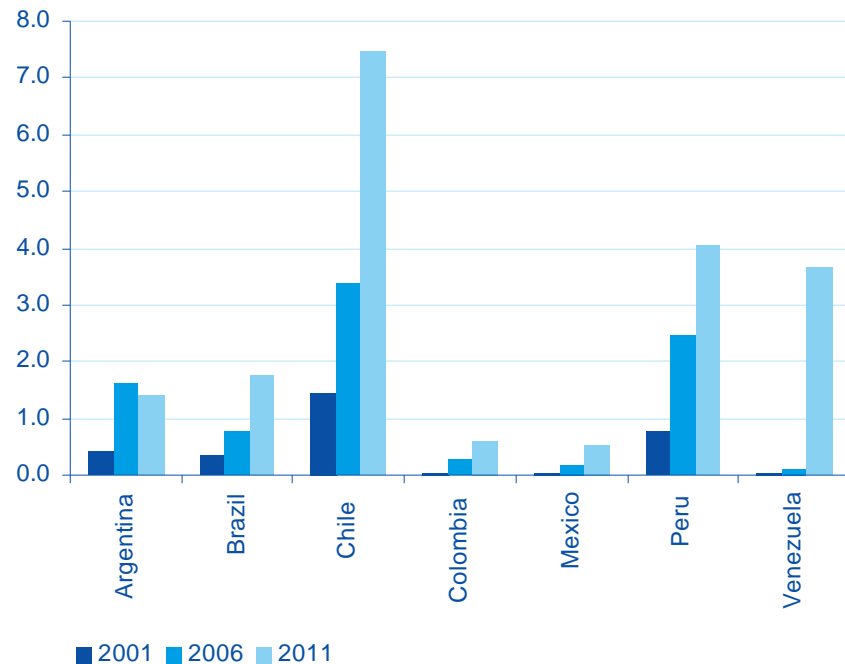
Source: BBVA Research and COMTRADE

Country	Exports to China		Imports 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

While it looks balanced it hides a very unbalanced trade pattern

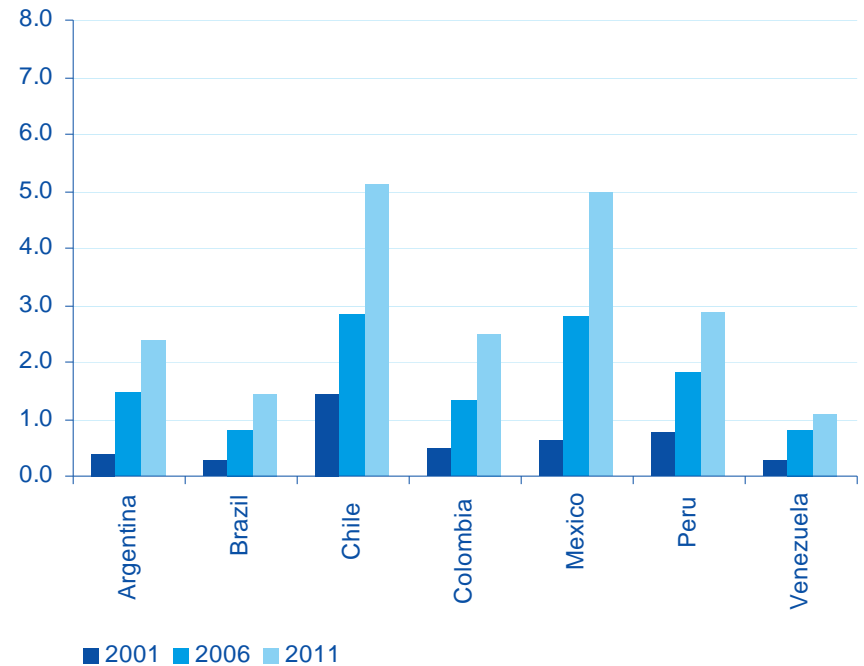
LatAm 7* export to China as % of GDP

Source: IMF and BBVA Research



LatAm 7* import from China as % of GDP

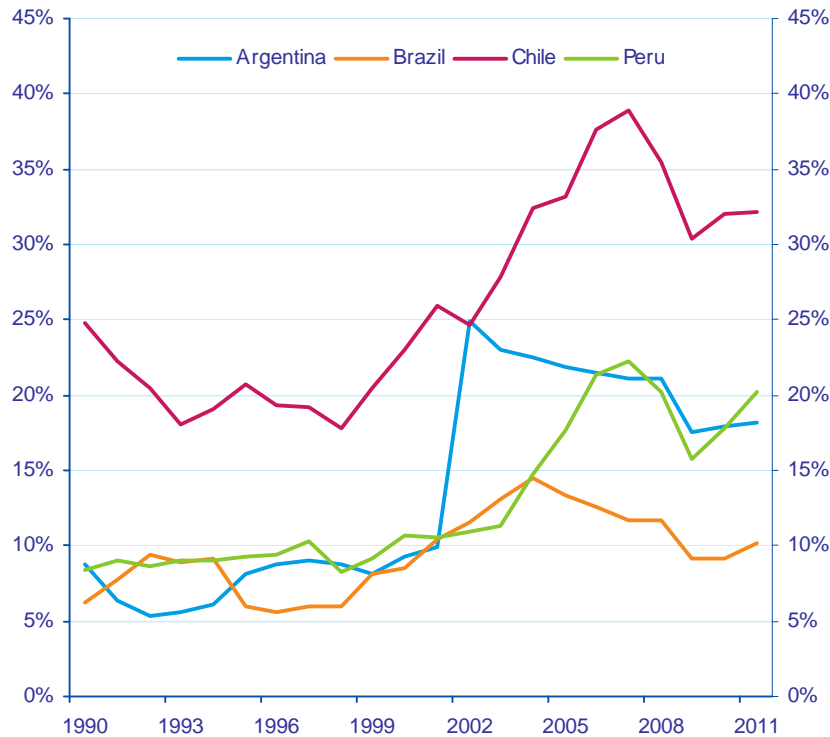
Source: IMF and BBVA Research



The importance of exports is not homogeneous

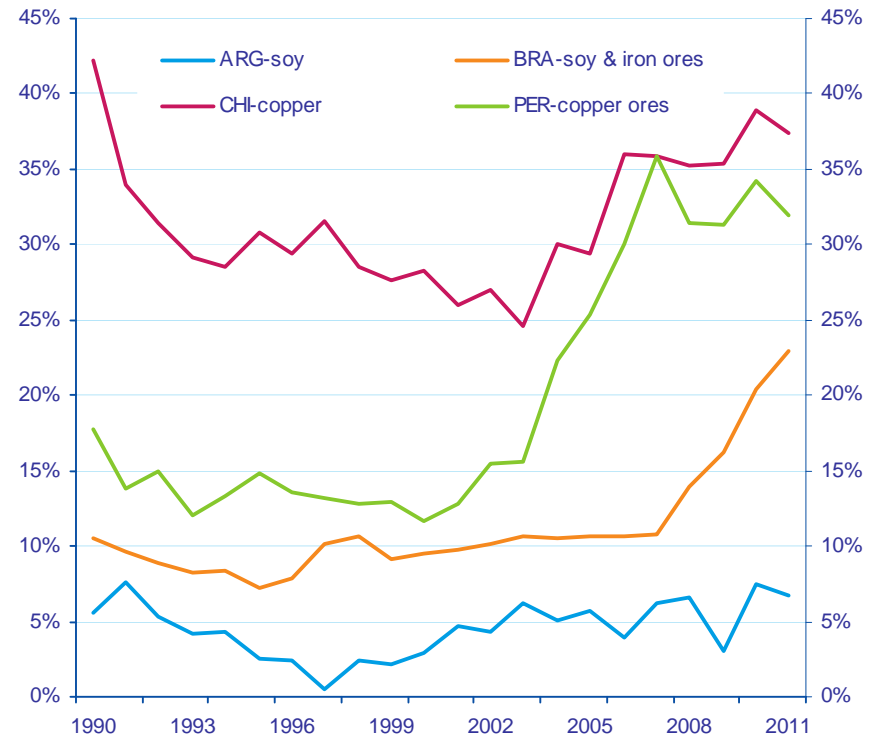
Total exports: % of GDP

Source: COMTRADE, Haver and BBVA Research



Commodity exports: % of total exports

Source: COMTRADE, Haver and BBVA Research

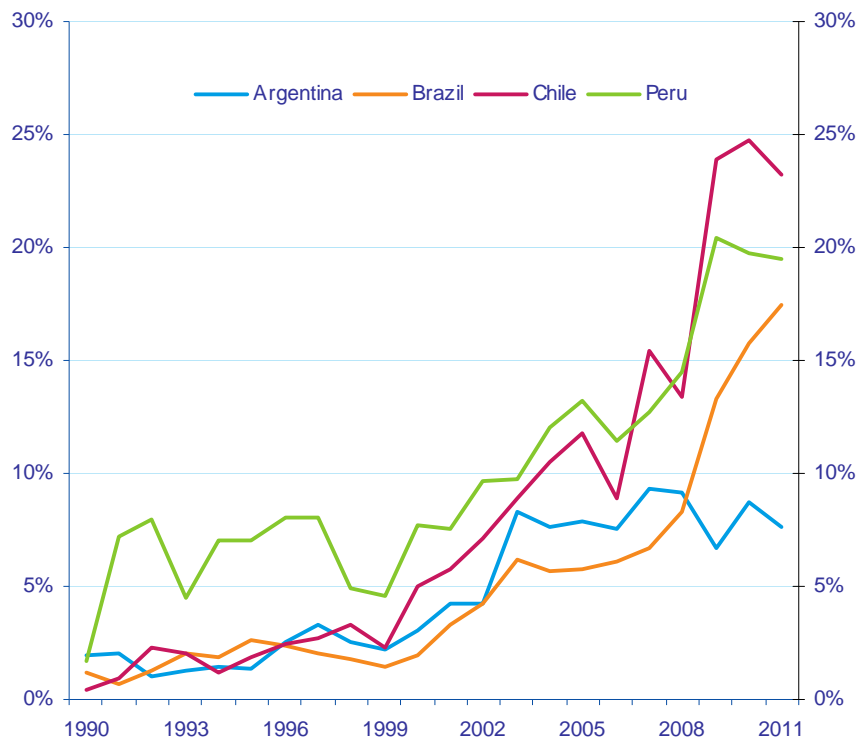


South American economies have become more open in recent years. Raw materials are key in their export structure

China is a key destination for South American exports

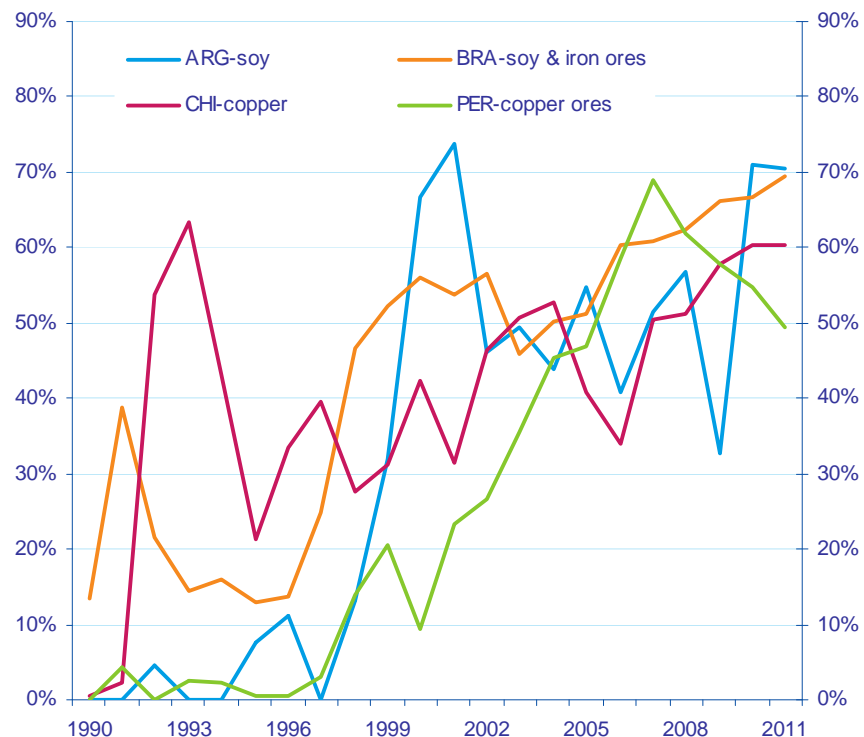
Exports to China: % of total exports

Source: COMTRADE, Haver and BBVA Research



Commodity exports to China: % of total exports to China

Source: COMTRADE, Haver and BBVA Research



China is a bigger buyer in South America. It is worrisome the exports to China are concentrated in one or two raw materials

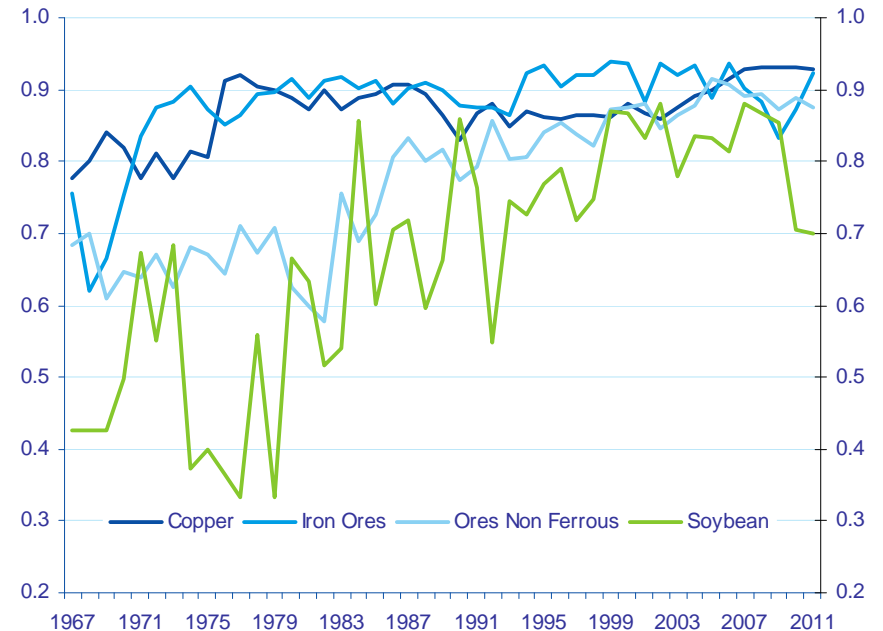
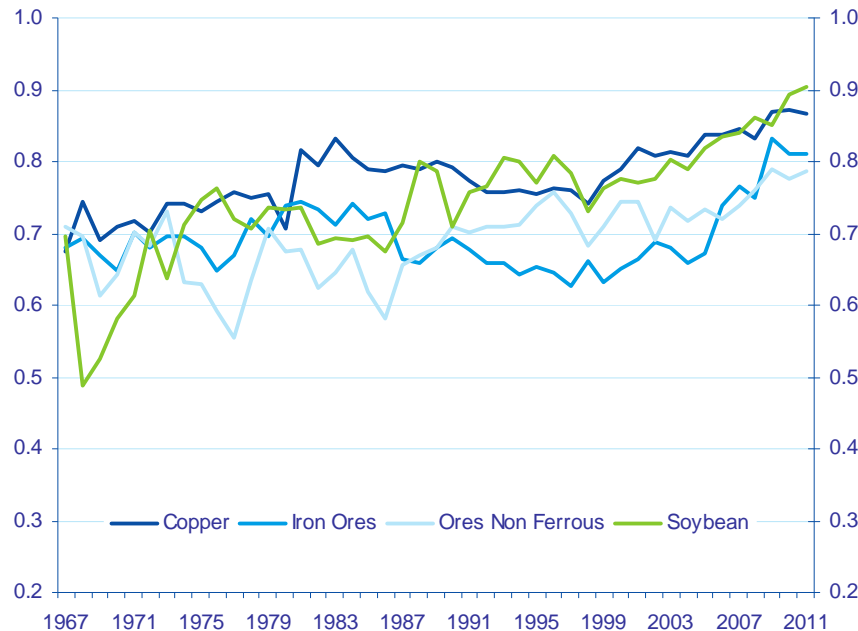
Commodity markets highly concentrated

Market concentration: Gini index

Source: COMTRADE and BBVA Research

Exports Gini Index

Imports Gini Index

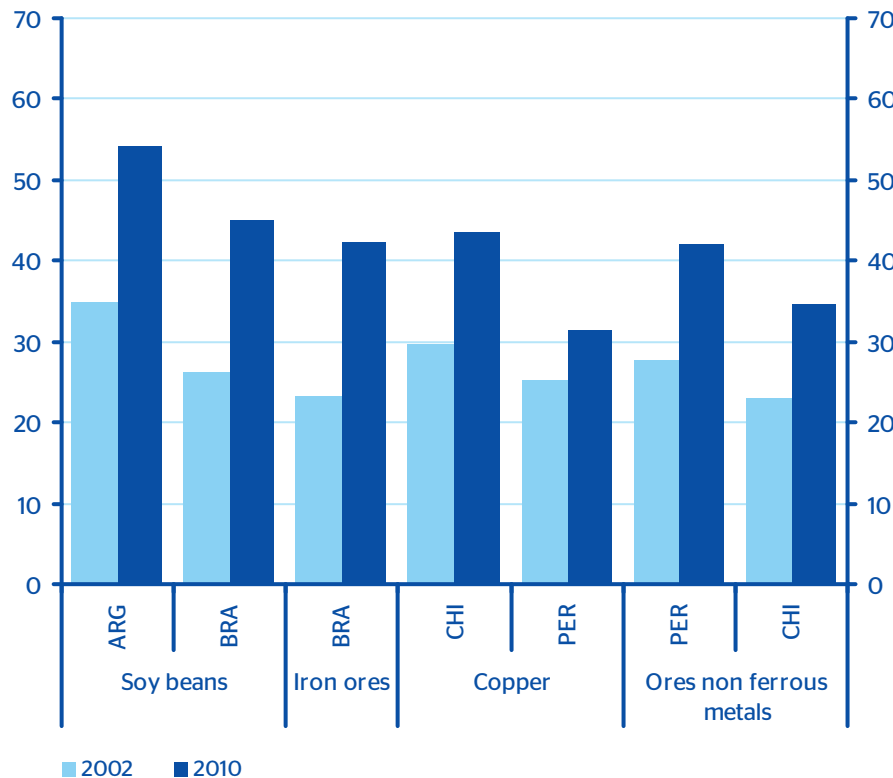


In recent years China gained lots of market power as the main buyer whereas South American countries are not always the largest suppliers

Trade has grown very rapidly but challenges are rising

Exports dependency of China index: 0 no dependency - 100 absolute dependency

Source: COMTRADE and BBVA Research



Dependency on Chinese demand for all commodities considered have increased compared to year 2002

South American countries considered are more reliant on Chinese demand than the AsiaPac exporters considered

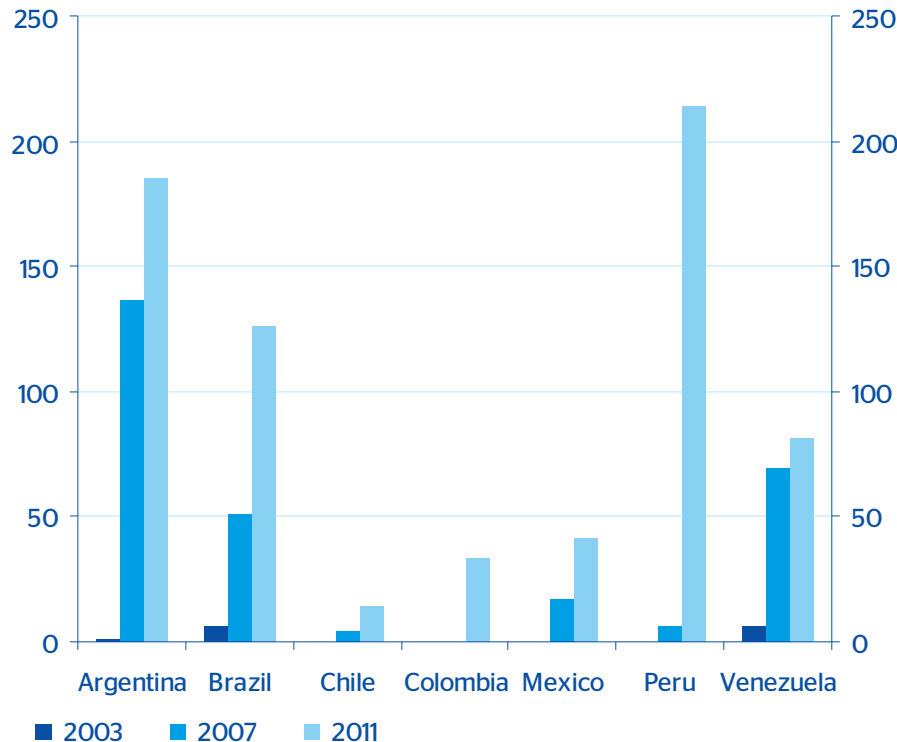
AsiaPac more diversified exports structure by destination explains this result

These results must be reviewed considering the size of exports relative to GDP, their weight on fiscal revenues and their appeal for FDI projects

FDI flows to South America from China has been growing

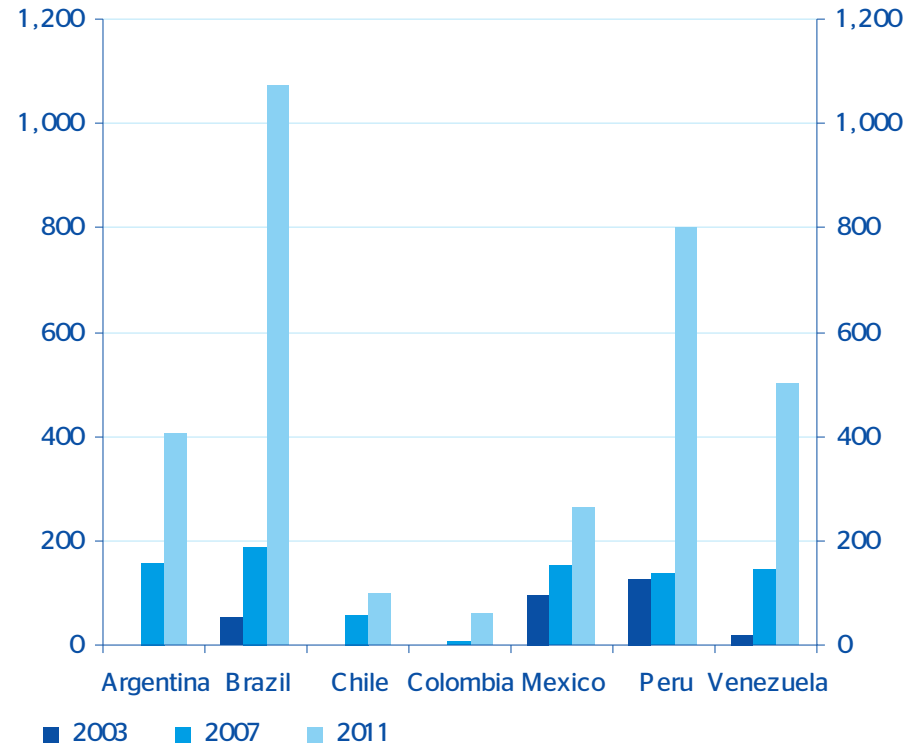
Chinese Outward Investment to LatAm7*: flows (million USD)

Source: CEIC and BBVA Research



Chinese Outward Investment to LatAm7*: stock (million USD)

Source: CEIC and BBVA Research



*LatAm7 includes: Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela

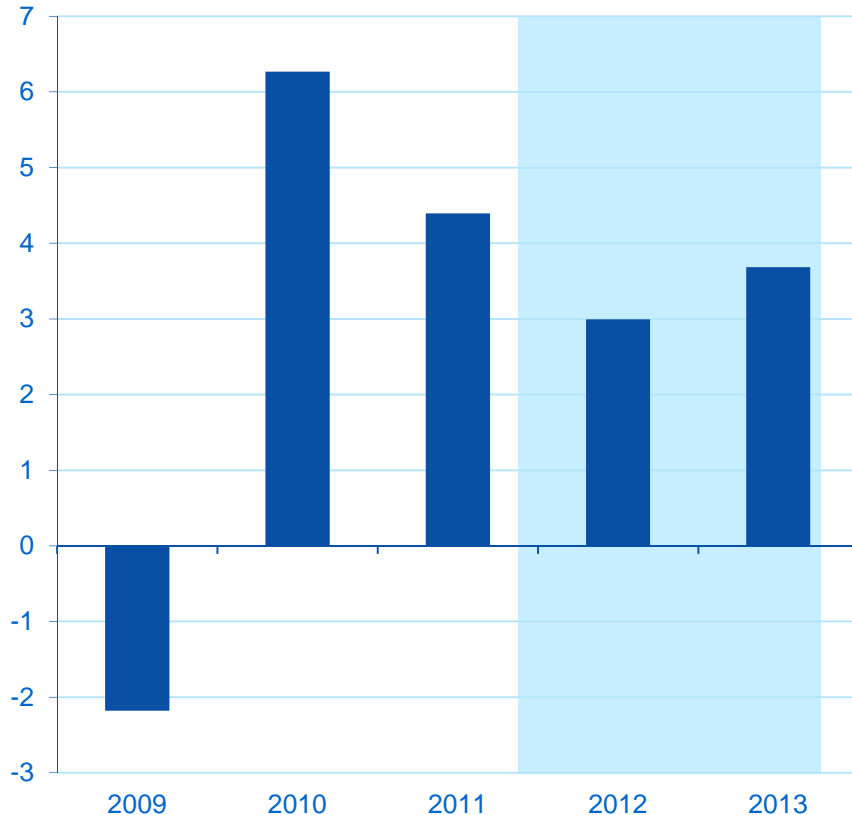
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Latam will grow 3% in 2012 and 3,7% in 2013, converging to its potential growth

Latam*: GDP growth (%)

Source: BBVA Research



Domestic demand will grow faster than GDP, supported by consumer and corporate confidence

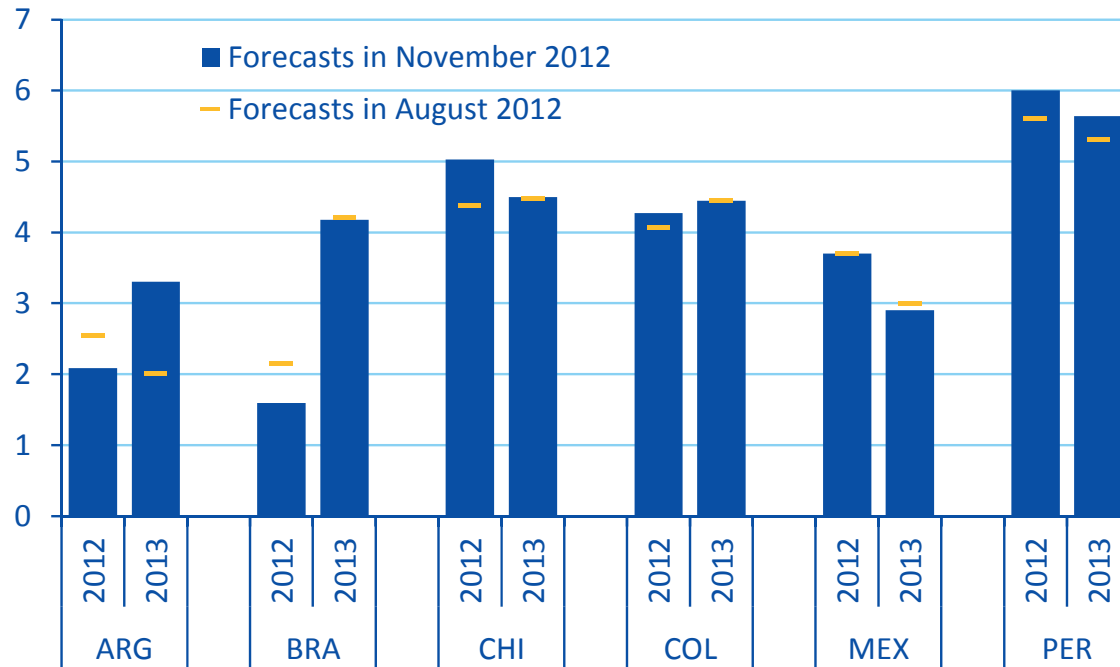
Convergence to potential growth for the region, close to 4%

* Weighted average of Argentina, Brazil, Chile, Colombia,, Panamá, Paraguay, Peru, Mexico, Uruguay and Venezuela

Most countries doing better than expected

Latam countries: GDP growth (%)

Source: BBVA Research



Better outturns than expected in most countries

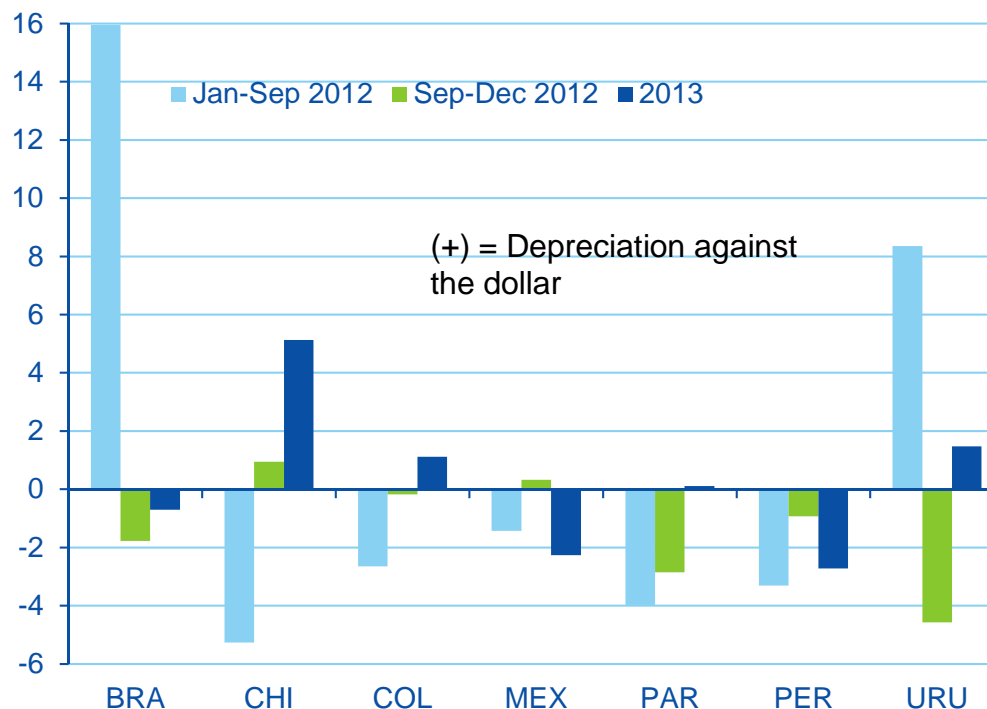
Brazil: stimulus policies start to re-launch growth in Q3

Strong growth in 2013 in most countries in the region

Exchange rates should continue appreciating

Change in exchange rate to the USD (%)

Source: BBVA Research and Haver



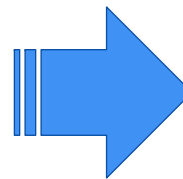
The region can withstand an external shock, whose probability is now lower than 3 months ago

Higher international reserves

Fiscal and external deficits
at manageable levels

Room for countercyclical policies (monetary
and fiscal), although lower than in 2008

Strength of their banking systems



Latam is ready to weather a
new global crisis

The fallout on growth would
be sizable,
but would not lead to a
recession in any country.

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