

The Pacific Alliance: integration and growth

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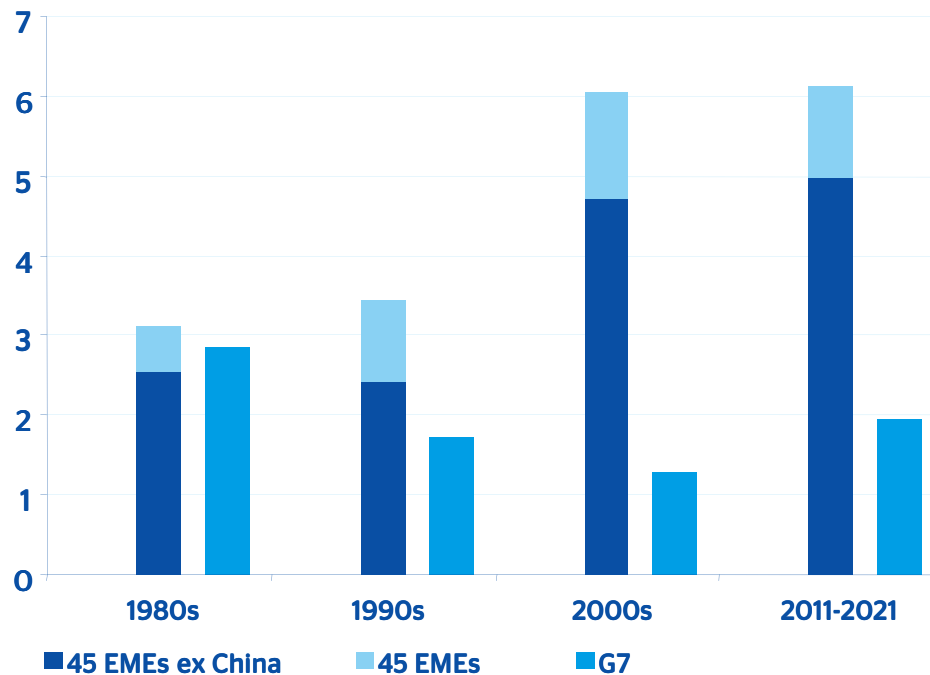
Outline

- 1 A rising group of countries among emerging economies**
- 2 Committed to integration, without forgetting about the global economy
- 3 Stability and growth, but some challenges as well

Emerging markets: the most dynamic

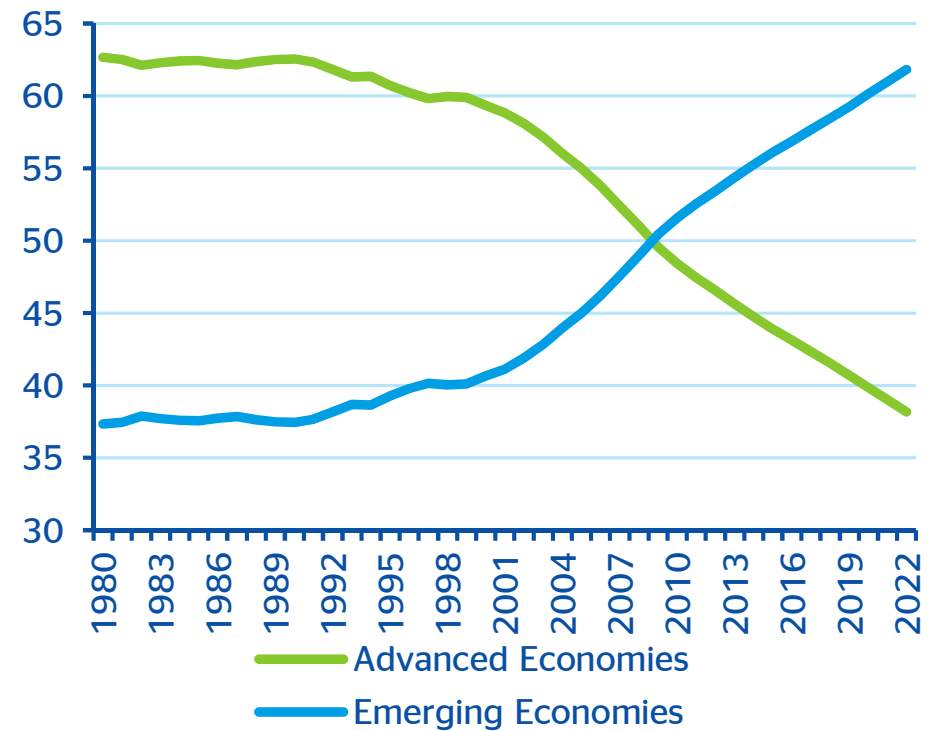
GDP growth, adjusted by PPP (%)

Source: BBVA Research



Share of global GDP: emerging vs. developed (%)

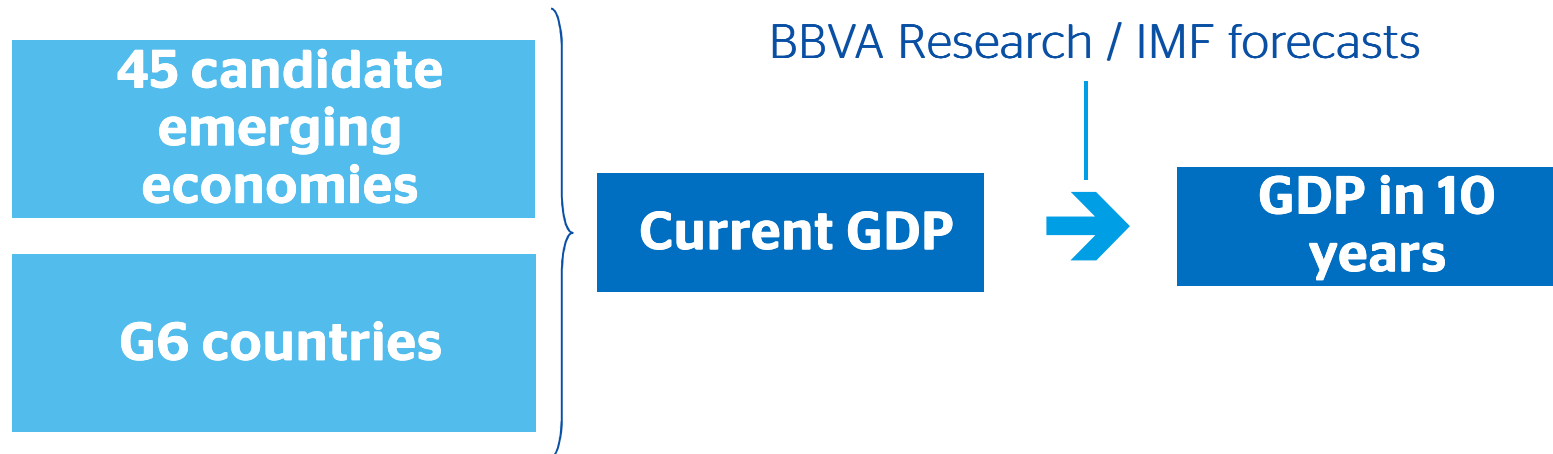
Source: BBVA Research



BBVA EAGLEs: Emerging And Growth Leading Economies

BBVA EAGLEs: emerging economies that will be the biggest contributors to global growth

Step 1



Step 2



BBVA EAGLEs: combining size and growth rates

Step 3

Ranking and selection according to incremental GDP

**Biggest
incremental GDP**



**Smallest
incremental GDP**

EAGLEs

G6 average (446bn\$)

NEST

Minimum from G6 (Italy, 194bn\$)

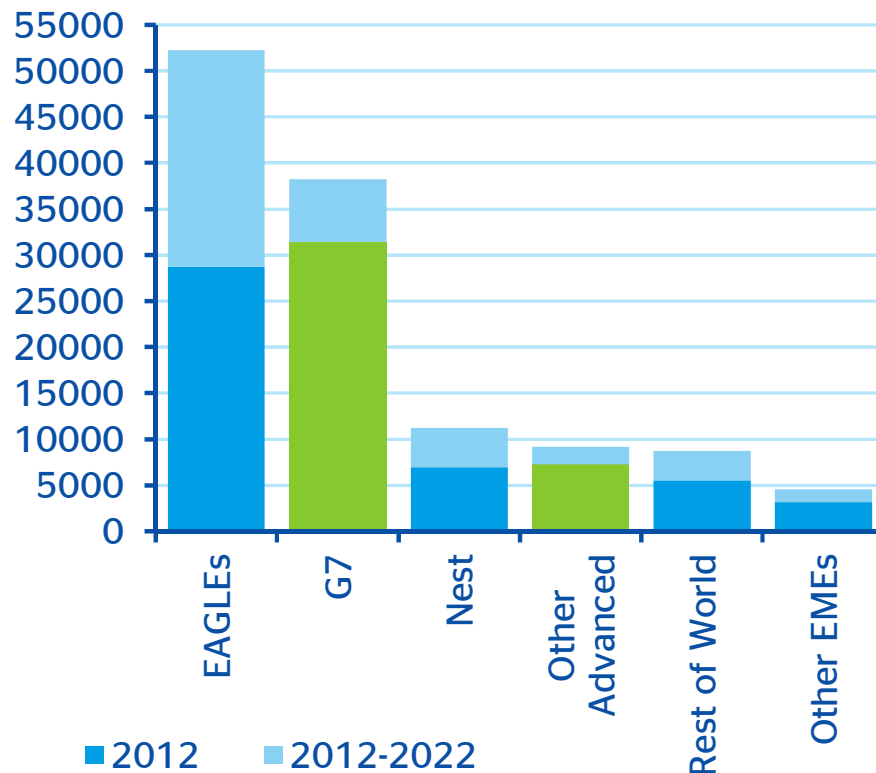
Rest of candidate emerging economies

EAGLEs versus G7: A new G?

- EAGLEs will contribute 60% of global GDP growth in the next 10 years.
- NEST countries will contribute an extra 10% (G7: 16%)

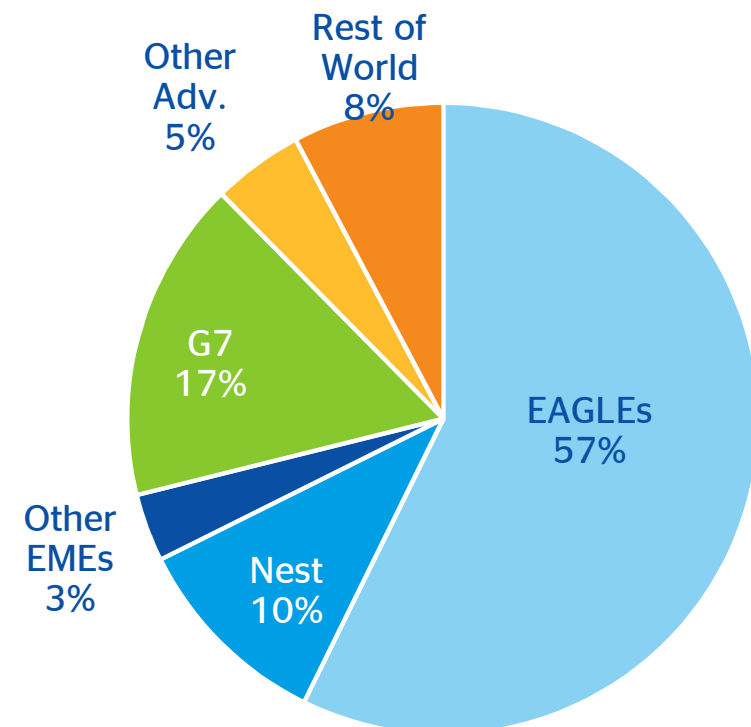
GDP (PPP adjusted): current and in the next 10 years (2012-2022). Bn dollars

Source: BBVA Research



Contribution to global GDP growth 2012-2022 (%)

Source: BBVA Research



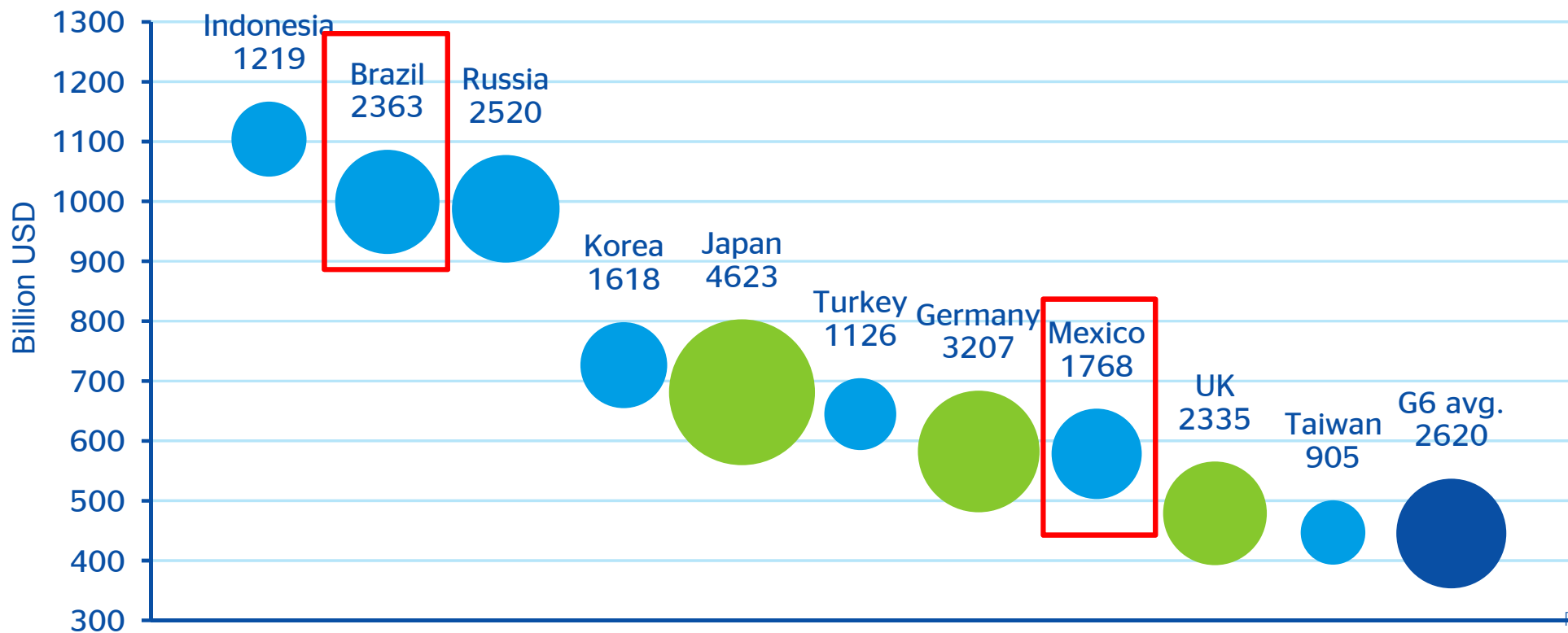
EAGLEs: global players

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

EAGLEs (ex China and India) vs. G6:

Current GDP size (2012, size of circles) and contribution to global GDP growth 2012- 2022 (bn dollars)

Source: BBVA Research and IMF

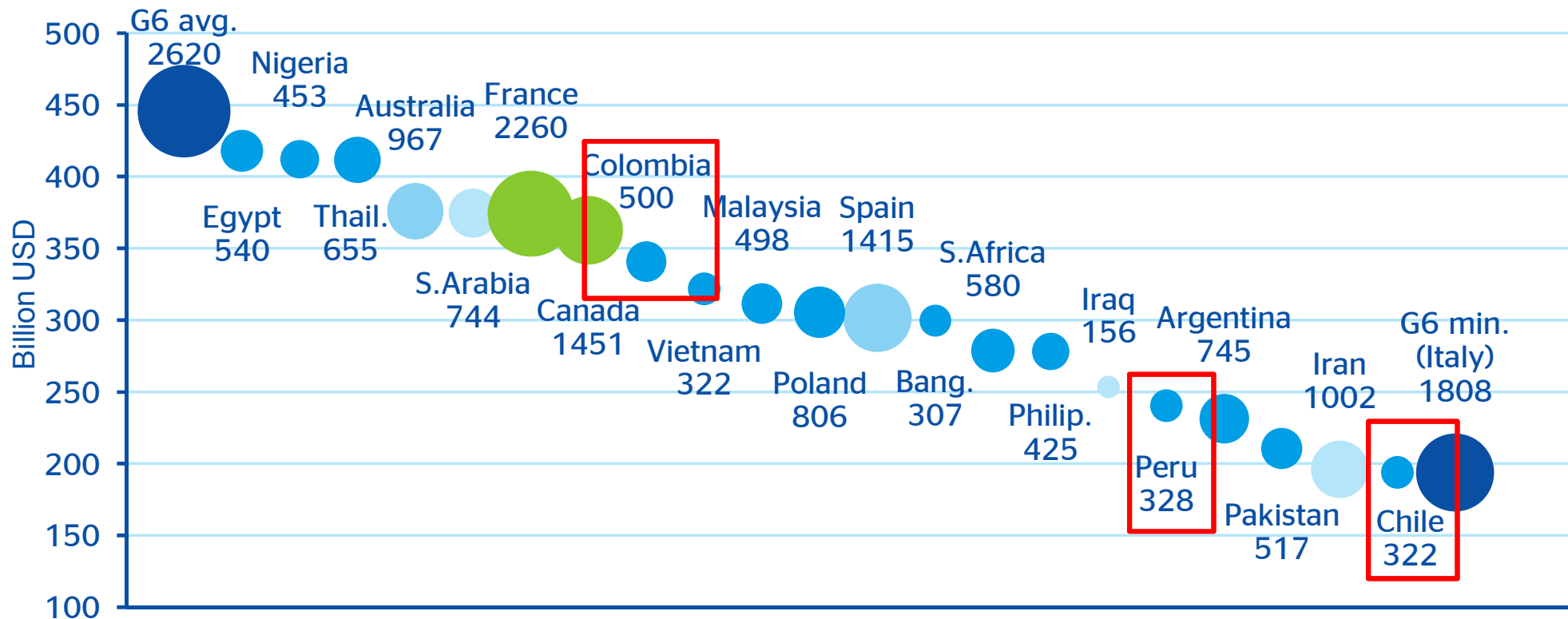


Waiting list of potential EAGLEs: The NEST

NEST vs. G6:

Current GDP size (2012, size of circles) and contribution to global GDP growth 2012- 2022 (bn dollars)

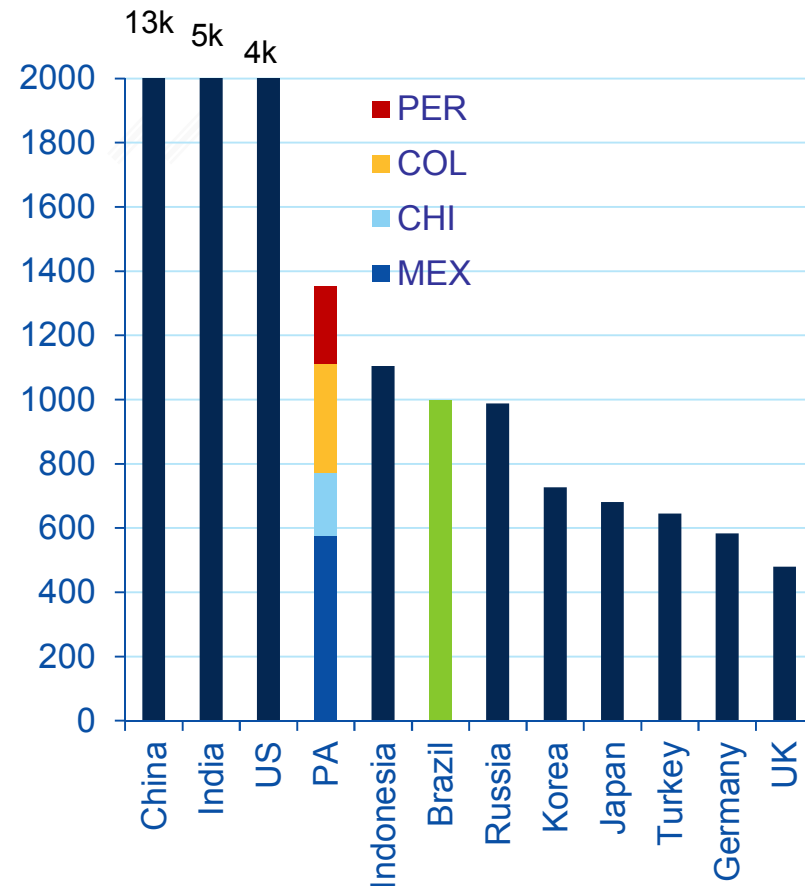
Source: BBVA Research and IMF



The Pacific Alliance in the global scene

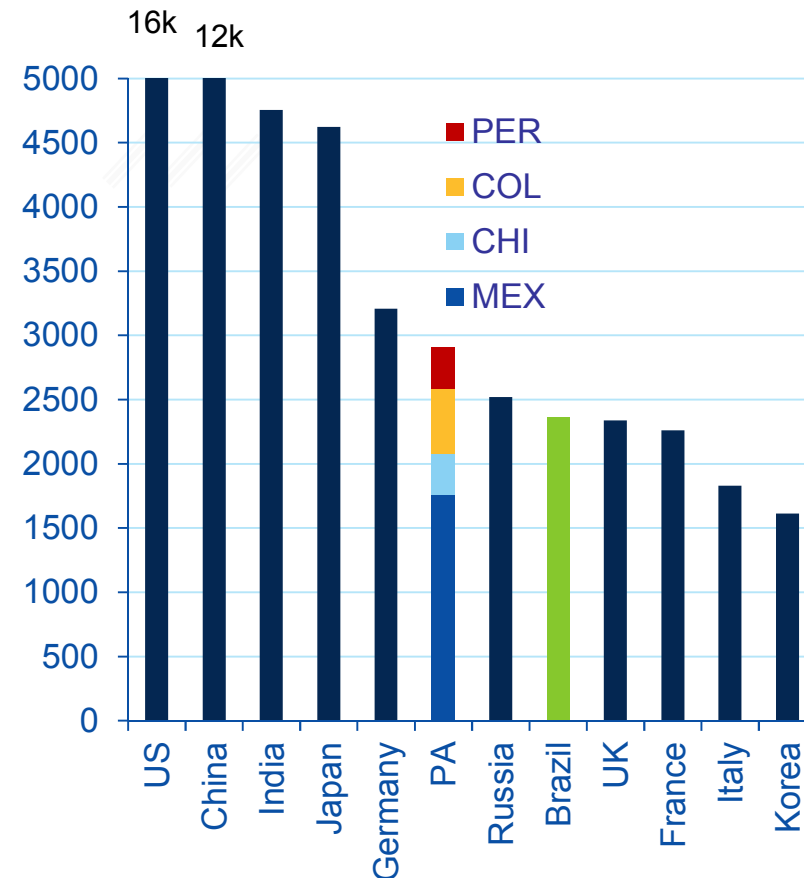
Biggest economies in 2012 (bn. USD, PPP adjusted)

Source: BBVA Research and IMF



Biggest contributions to GDP growth in the next 10 years (m USD, PPP adjusted)

Source: BBVA Research and IMF





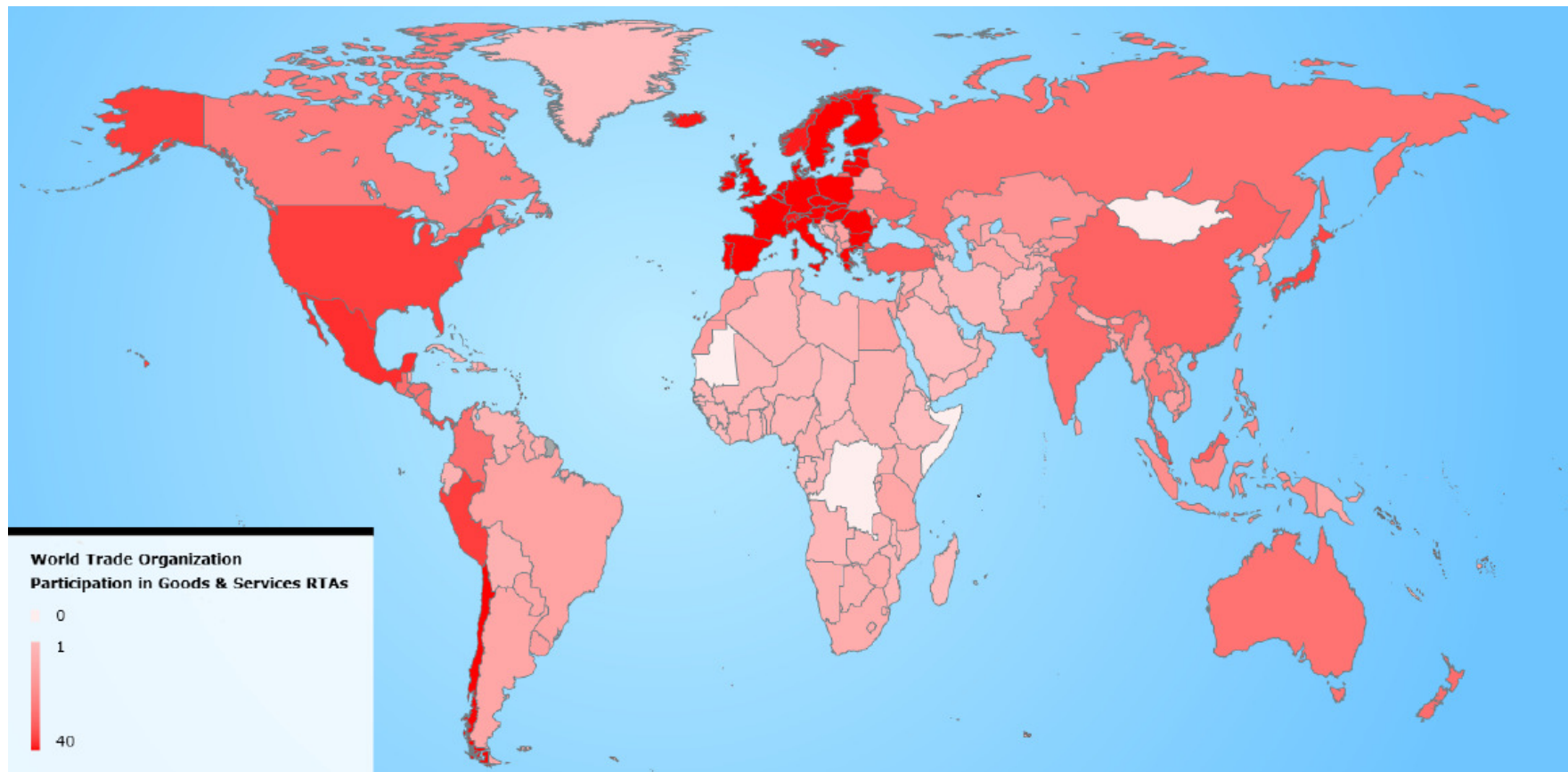
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Committed to integration in the global economy

Number of trade agreements signed

Source: BBVA Research and WTO



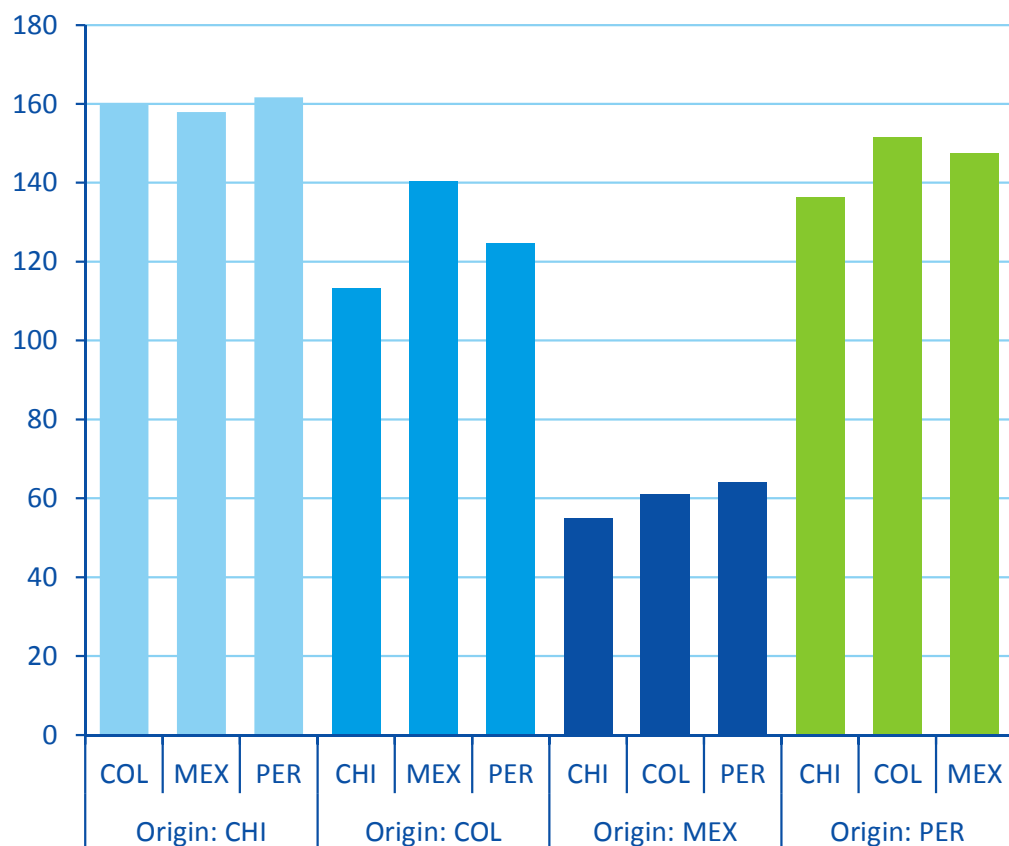
... especially with the main economic regions

Trade agreements signed					
	with US	with EU	with Japan	with China	Total number of agreements
Chile	✓	✓	✓	✓	21
Colombia	✓	✓	✗	✗	11
Mexico	✓	✓	✓	✗	18
Peru	✓	✓	✓	✓	16
Brazil	✗	✗	✗	✗	5

Also committed to trade integration within the PA. But trade opportunities are asymmetric for now

Export potential (origin-destination) (index: 0= very high; 200 = very low)

Source: BBVA Research and COMTRADE



Trade between PA countries is just 4% of their total foreign trade

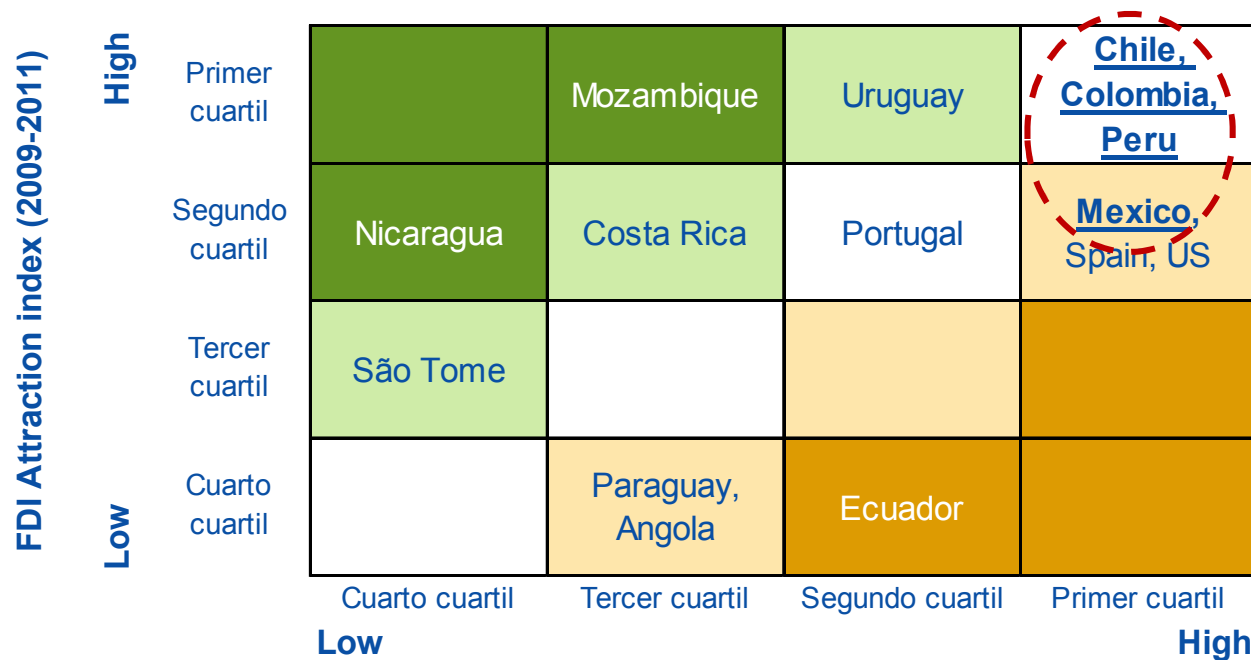
There is scope to increase trade within PA but, potential is highest in the case of Mexico

Nevertheless, cooperation within PA can extend beyond trade flows: know-how, investment and labor market

Pacific Alliance attracts FDI in line with its high potential....

FDI: attraction and potential to attract

Source: BBVA Research and UNCTAD



	Above expectations
	In line with expectations
	Belos expectations

PA countries among those with highest potential to attract FDI

FDI potential index:

- (i) attractiveness of domestic market;
- (ii) productivity of labor force;
- (iii) availability of natural resources;
- (iv) infrastructures

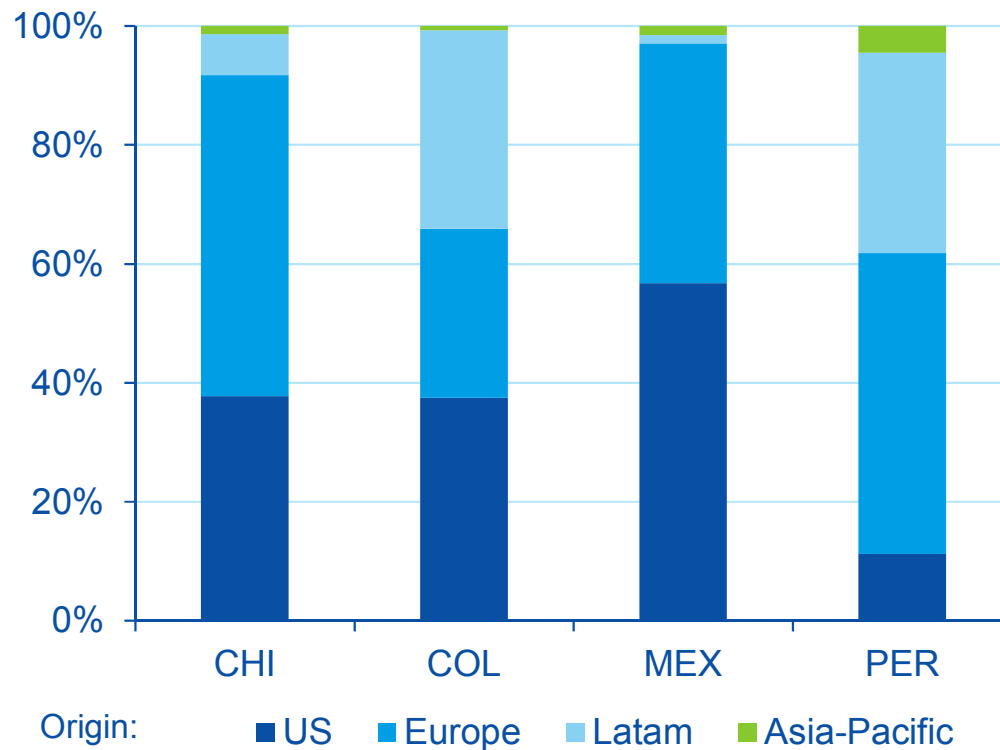
FDI attraction:
ranking of inward FDI both in absolute terms and relative to country size



... especially from US and Europe, with growing interest from Asia

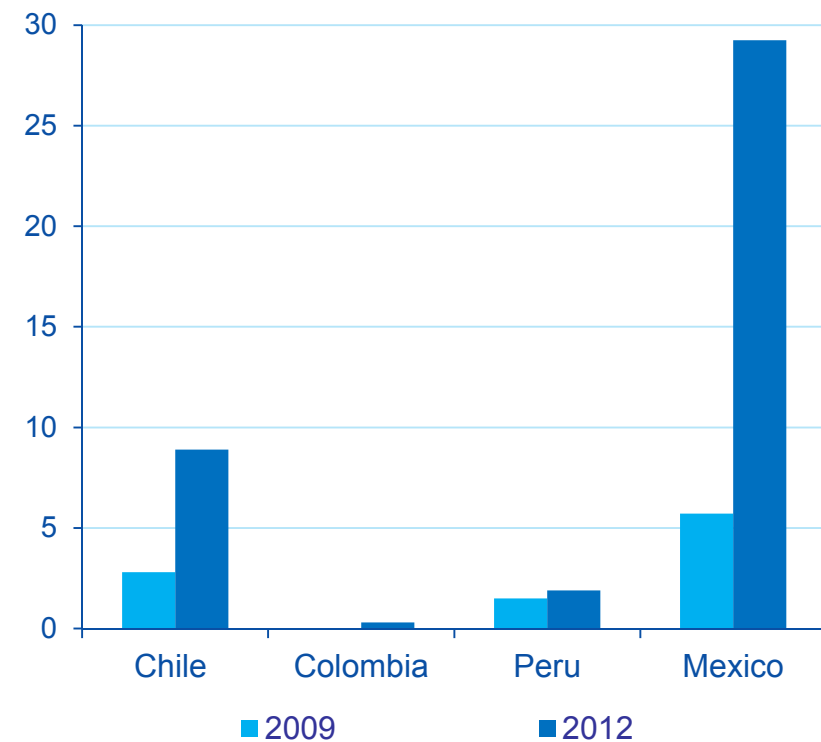
PA: Source of FDI (% del total 2002-2012)

Source: BBVA Research, ECLAC and national sources



FDI from Asia to PA (% of total FDI to PA)

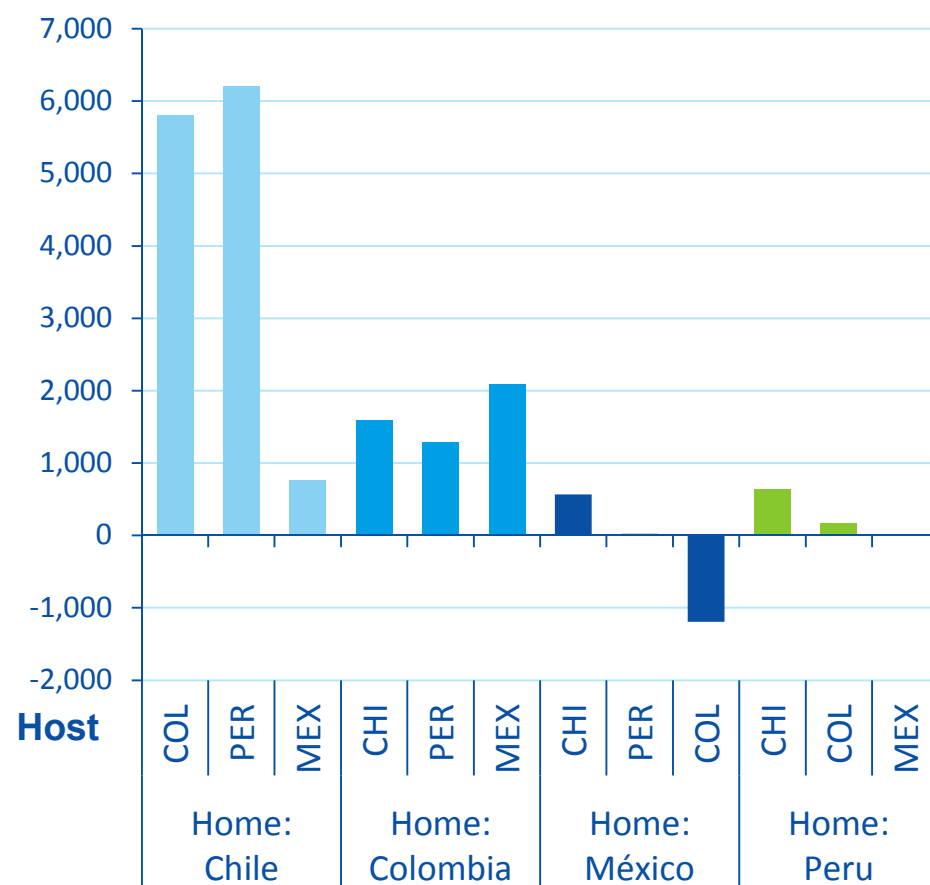
Source: BBVA Research, ECLAC and national sources.



... but there is still a sizable asymmetry in FDI flows within the Pacific Alliance

Cumulated FDI to PA countries 2009-2012 (home-host country, m USD)

Source: BBVA Research and Banco Central de Chile



There is scope and potential for bigger bilateral FDI flows within the PA

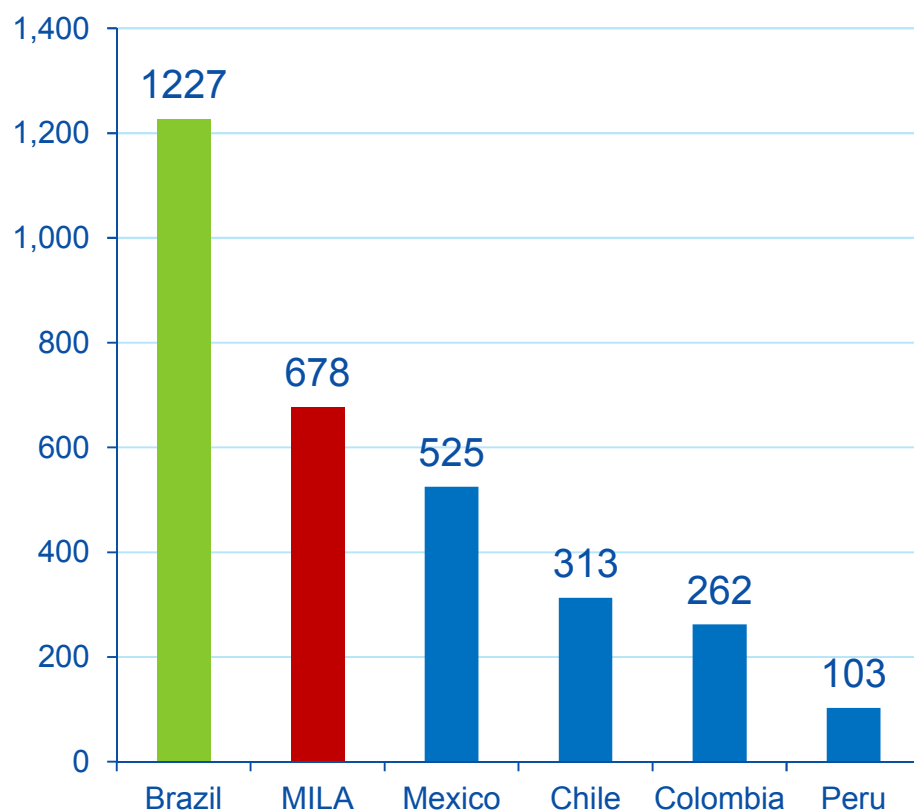
Chile has led the process in Peru and Colombia: geographical proximity; search of economies of scale; similar characteristics

Mexico and Colombia: focus on financial sector, telecoms and retail

Integration in portfolio investment is lagging behind in the Pacific Alliance

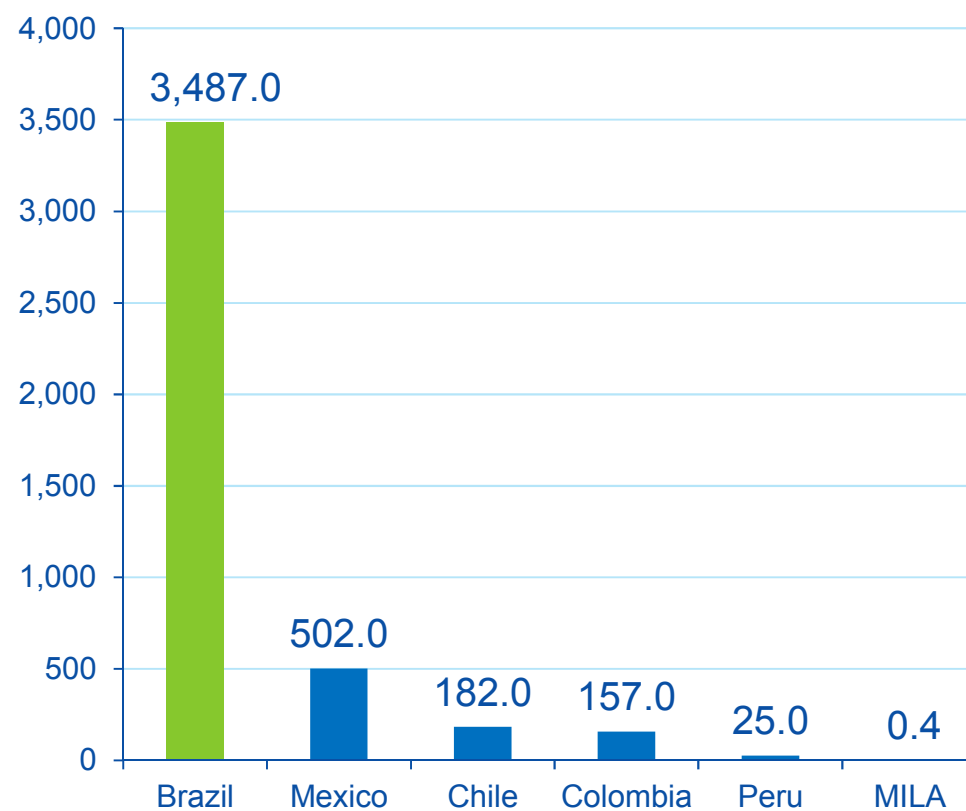
Stock market capitalization (m USD, Dec 2012)

Source: BBVA Research and Bloomberg



Volume of transactions (2012, m USD)

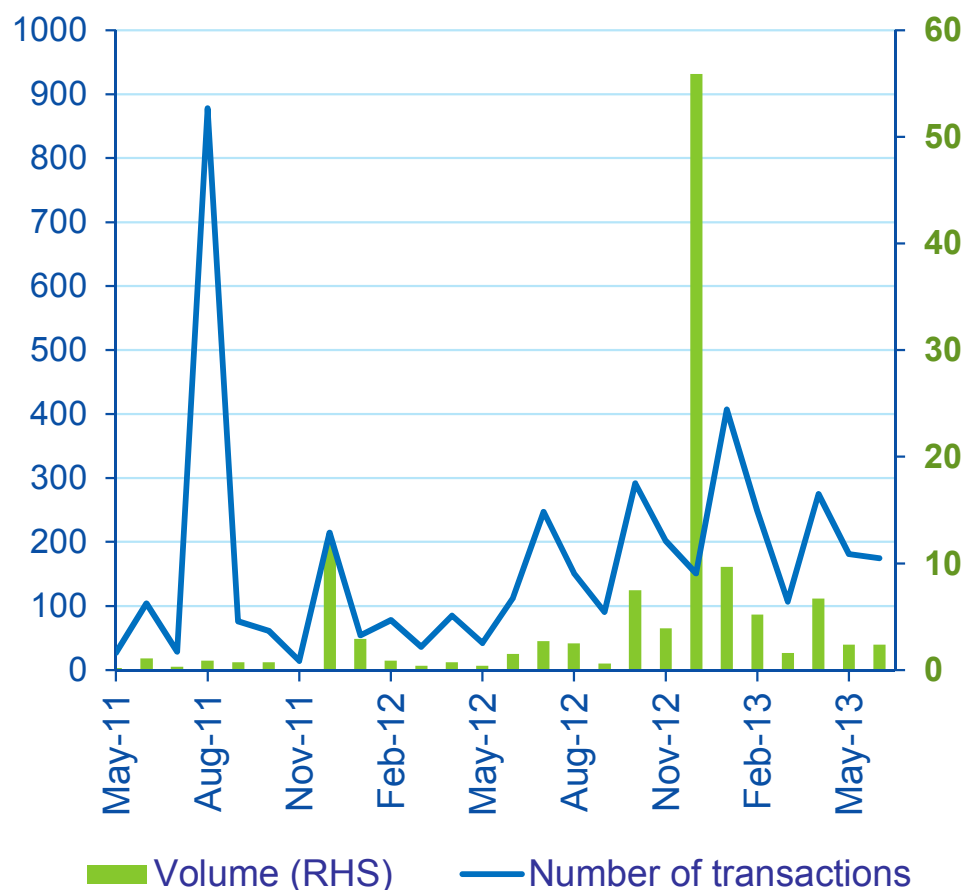
Source: BBVA Research and Bloomberg



MILA: a great opportunity to develop the regional stock market

Volume and number of transactions in MILA (m USD, number)

Source: BBVA Research and MILA



There are already mutual funds operating in MILA, hedging risk between markets

MILA will be further developed when Mexico joins in

Need to keep working on having similar tax burdens in different countries, simultaneous IPOs and more financial instruments



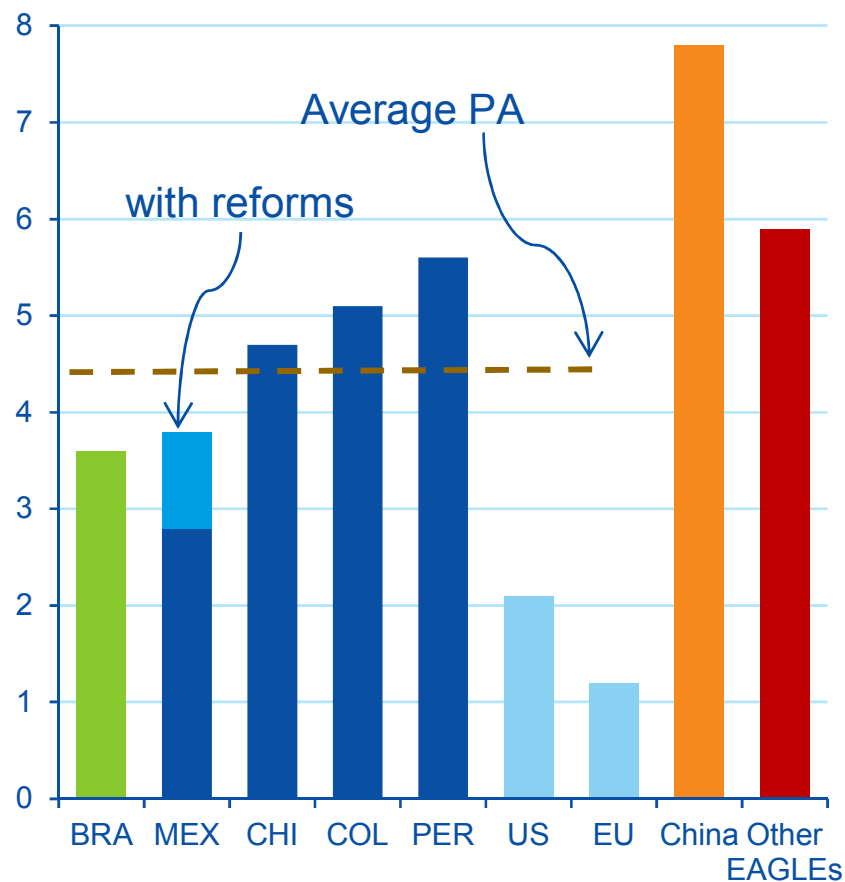
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Pacific Alliance: high potential growth

Potential GDP growth next 10 years (%)

Source: BBVA Research



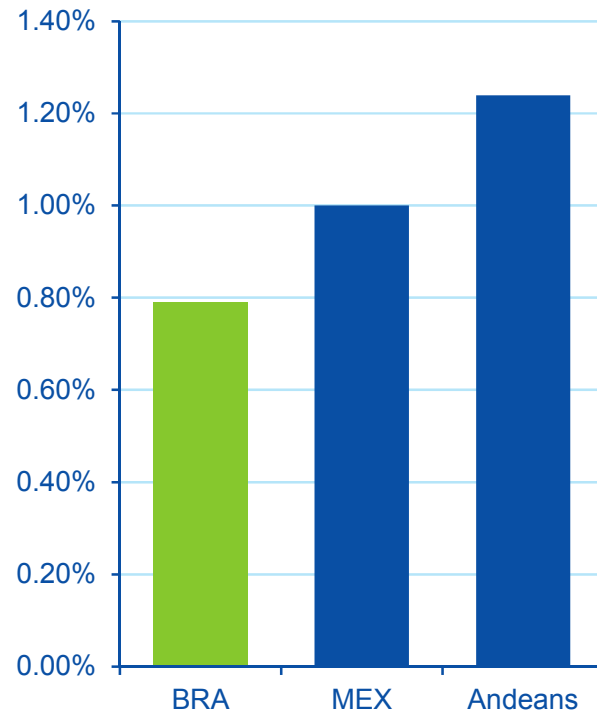
Besides a high contribution to global growth, a high potential growth rate

Commitment to reform will contribute to increasing potential growth

Dynamism due in part to favorable demography and the rise of the middle class

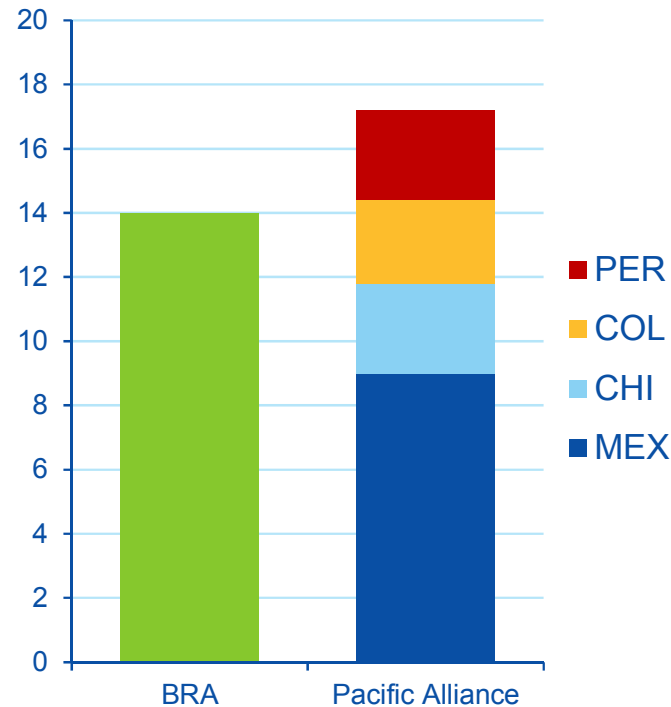
**Population growth rate
(% annual, 2011-21)**

Source: BBVA Research

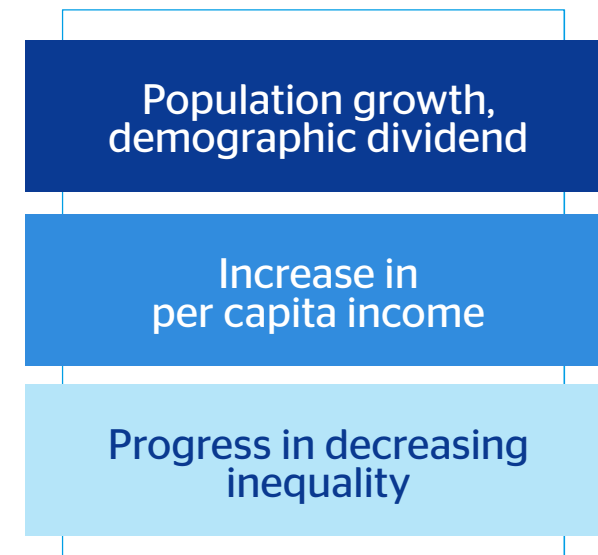


**Increase in middle class
(million people, 2011-21)**

Source: BBVA Research



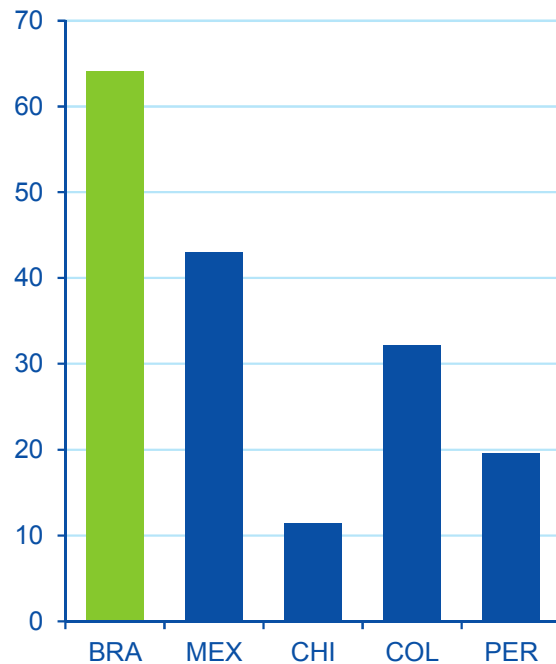
Increase in middle class



... also (and more importantly) due to prudent policies, low interventionism and openness

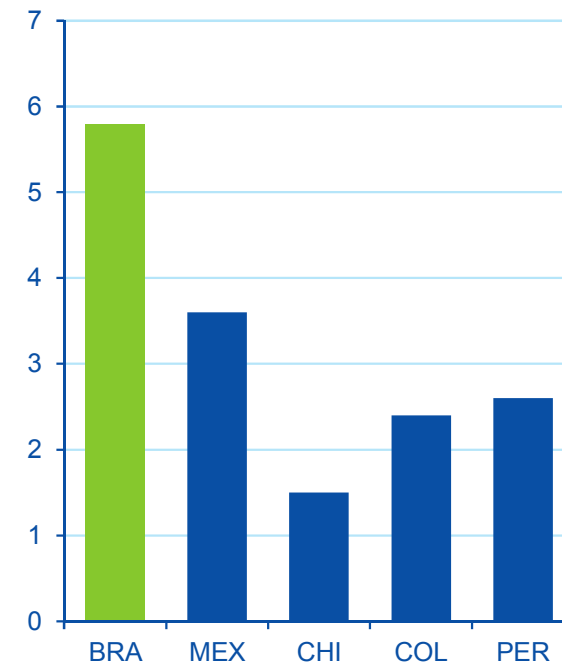
Public debt (gross) %GDP, 2012

Source: BBVA Research and FMI



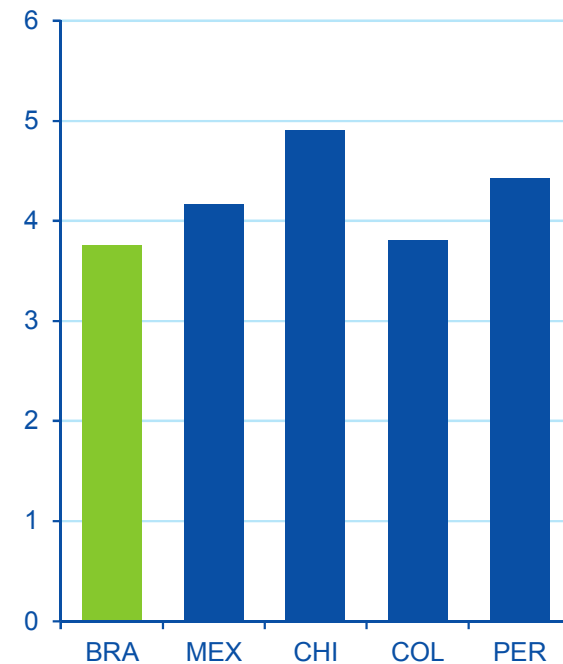
Inflation (% , 2012)

Source: BBVA Research and FMI



Index (0-7) of competition in the domestic market (7 = maximum competition)

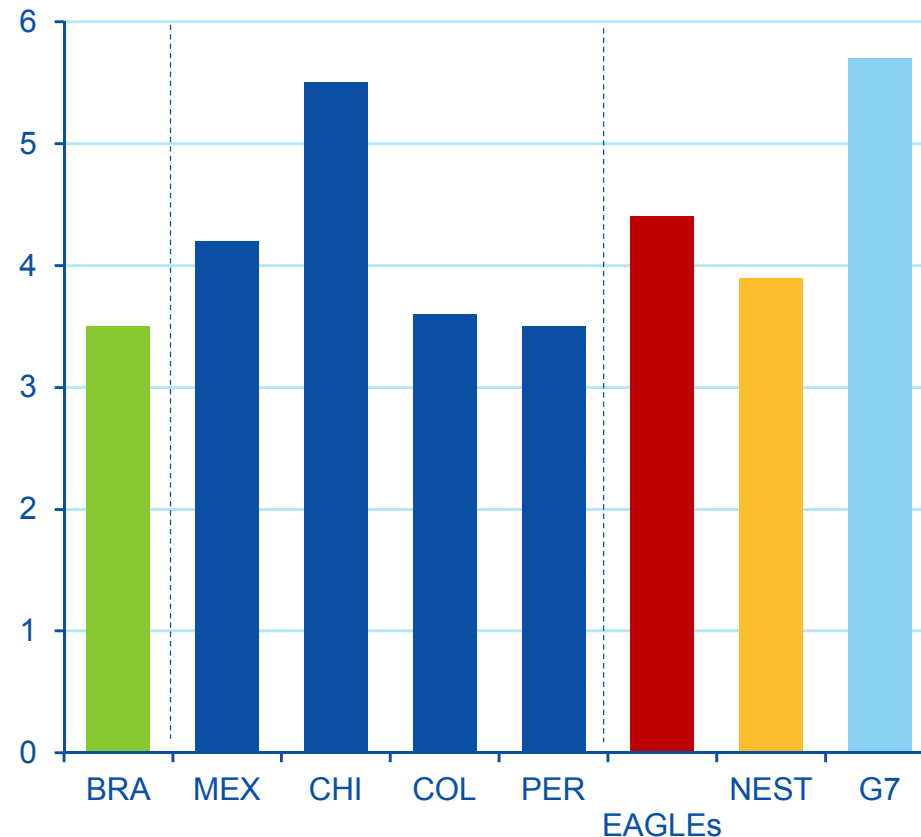
Source: BBVA Research and World Economic Forum



But the PA also faces big challenges

Quality of infrastructure (Index: 0-7, 7 = maximum quality)

Source: BBVA Research and World Bank



High informal sector
(labor market, underground economy)

Human capital: quality of education

Physical capital: quantity and quality of
infrastructure (except Chile)

Tax revenues highly dependent on a small
number of exported commodities

To summarize ...

- 1 The Pacific Alliance (PA) is the sixth biggest economy in the world** and will be the fourth in term of contribution to global growth in the next 10 years.
- 2 The PA is committed to trade and financial integration both within the alliance as well as with the rest of the world.** There is ample room to develop further integration within the AP.
- 3 The PA's potential growth is close to 4,5% during the next decade.** Growth will be based on continuing reforms and prudent economic policies.
- 4 Growth could be even higher** if there are further advances in reducing the informal sector and increasing investment in infrastructure and in human capital (education).

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