

Changing global dynamics

What is it in for Latin American and Chinese relations?

Alicia Garcia Herrero

Chief Economist for Emerging Markets BBVA

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Many venues of change relevant

1. The emerging countries' kingdom

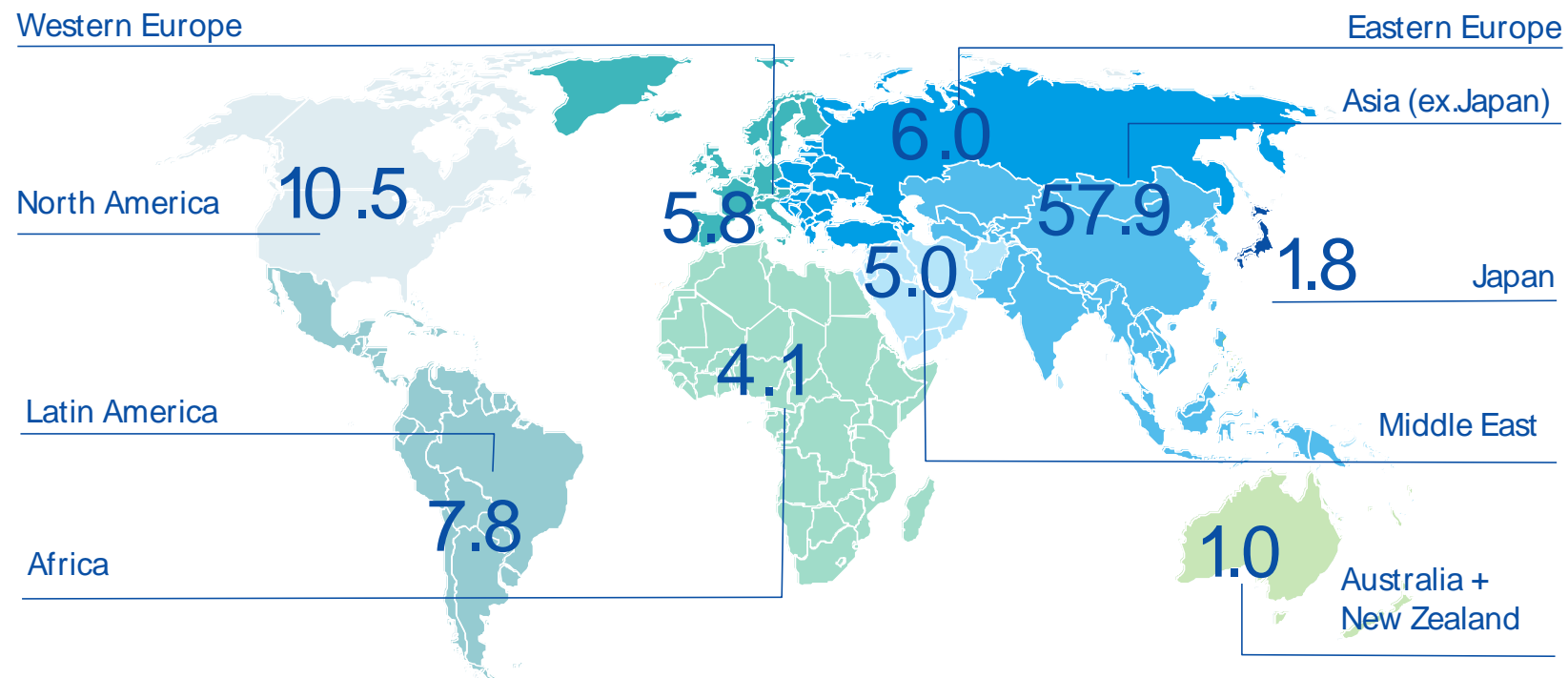
Enormous weight of emerging countries in the global economy in the next ten years

1. The emerging countries' kingdom

- Emerging Asia contribute close to 58% to global growth in next 10 years
- China is the highest contributor with almost 30% of global growth
- Latin America more relevant than Europe

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

Source: BBVA Research and IMF WEO



Many venues of change relevant

2. Economic relevance for many countries in the emerging world but fewer creditors!

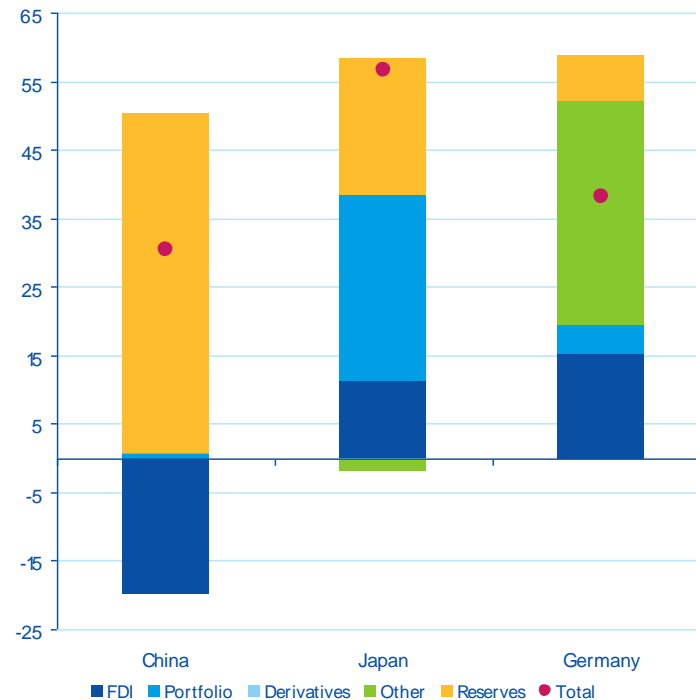
Emerging economies still absorbing capital with a very big exception: China!

China becoming key source of investment

China will further increase its influence on other EM since it will need to diversify its positive IIP away from reserve assets to FDI and away from the developed world to the emerging world. Key sectors might be infrastructure and manufacturing in the future

International Investment Position 2010 (% of GDP)

Source: BBVA Research and IMF



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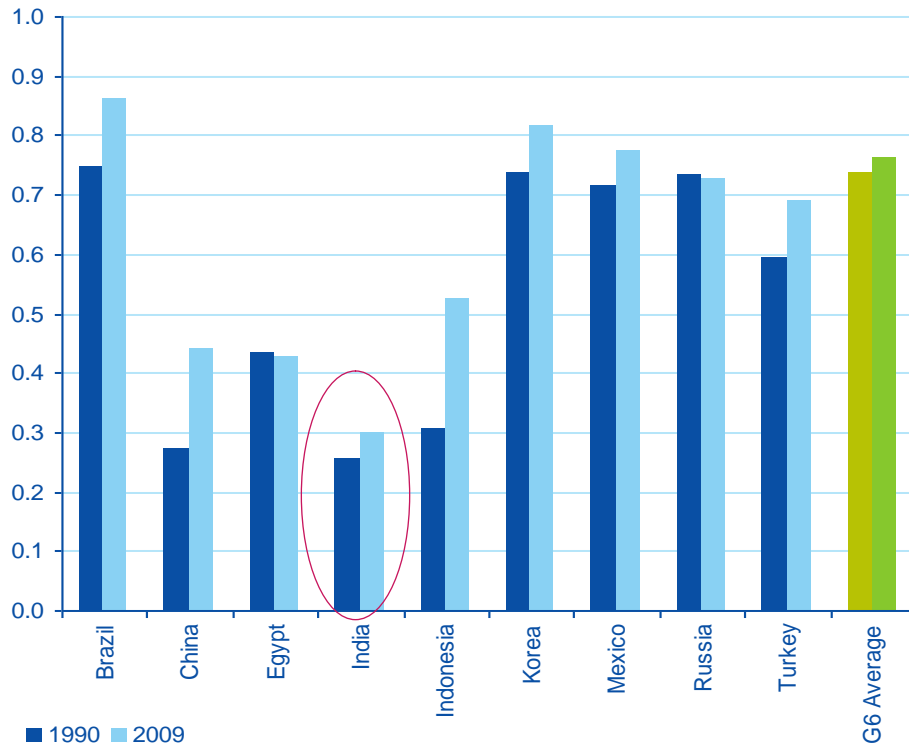
3. Continuous urbanization implies a sustained change in demand for (some) commodities

Infrastructure needs strong and, thereby, the price of commodities (energy and metals)

Urbanization still underway in the most important region for global growth: Asia

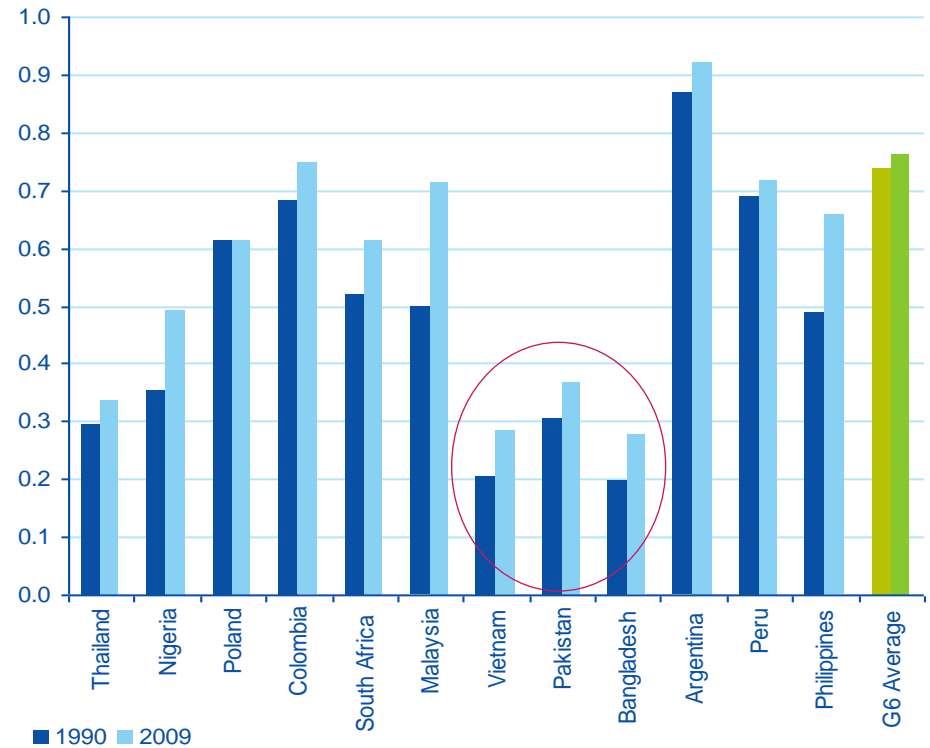
Largest group of emerging markets: Urbanization rate (% , people living in urban area)

Source: BBVA Research, WB and Haver



Second largest group: Urbanization rate (% , people living in urban area)

Source: BBVA Research, WB and Haver



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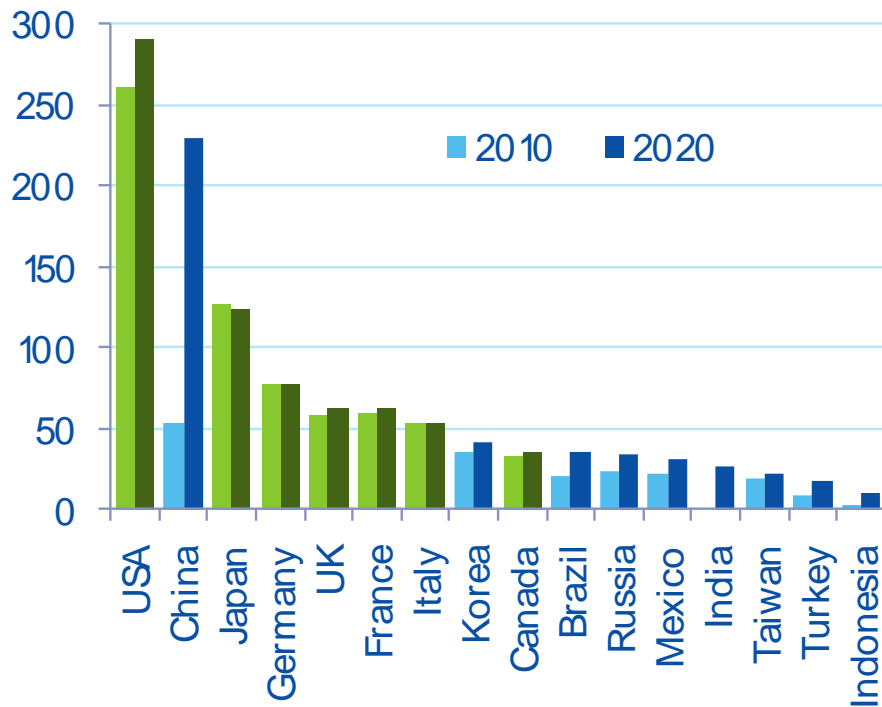
4. New middle class massively in emerging world

Specially in China followed at large distance by Brazil

New middle class: enormous opportunity to serve new consumption needs

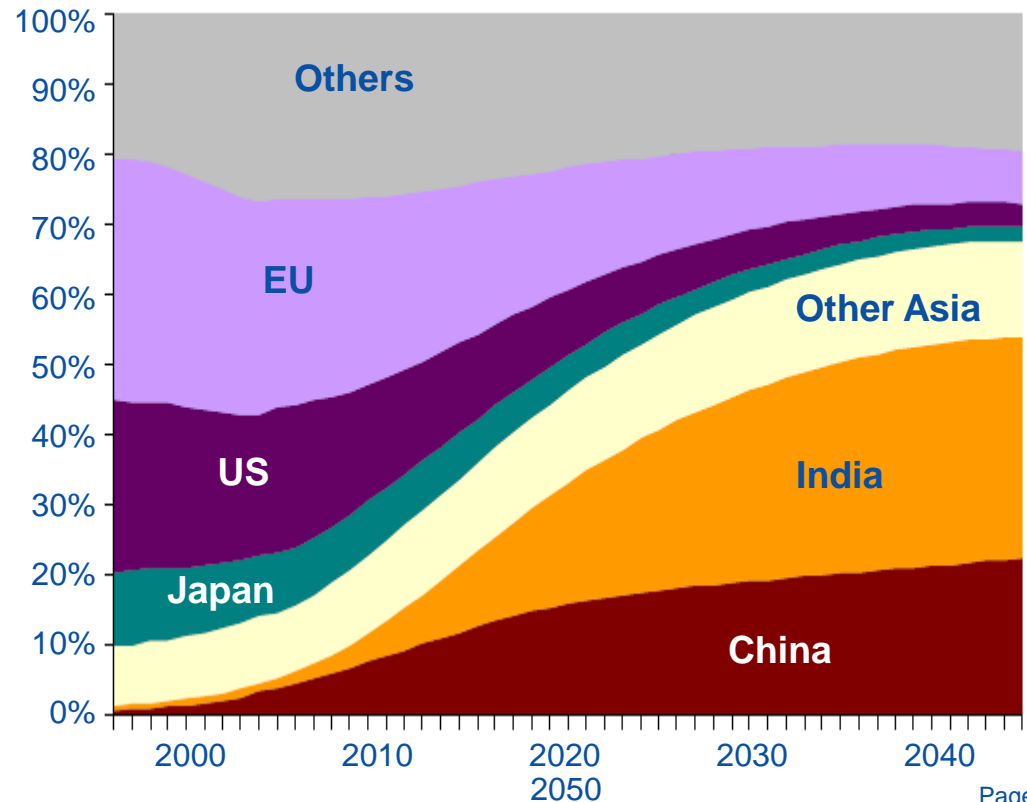
Size of middle income class population (millions of people)

Source: BBVA Research



Share of global middle class consumption (2000-2050) (millions)

Source: OECD 2010 ("The emerging middle class in developing countries")



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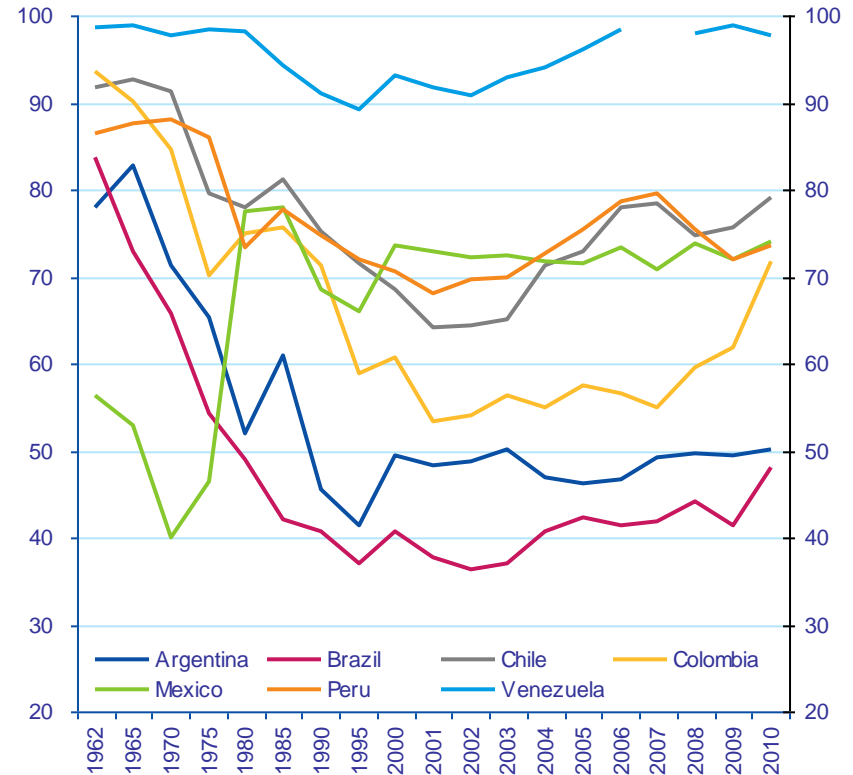
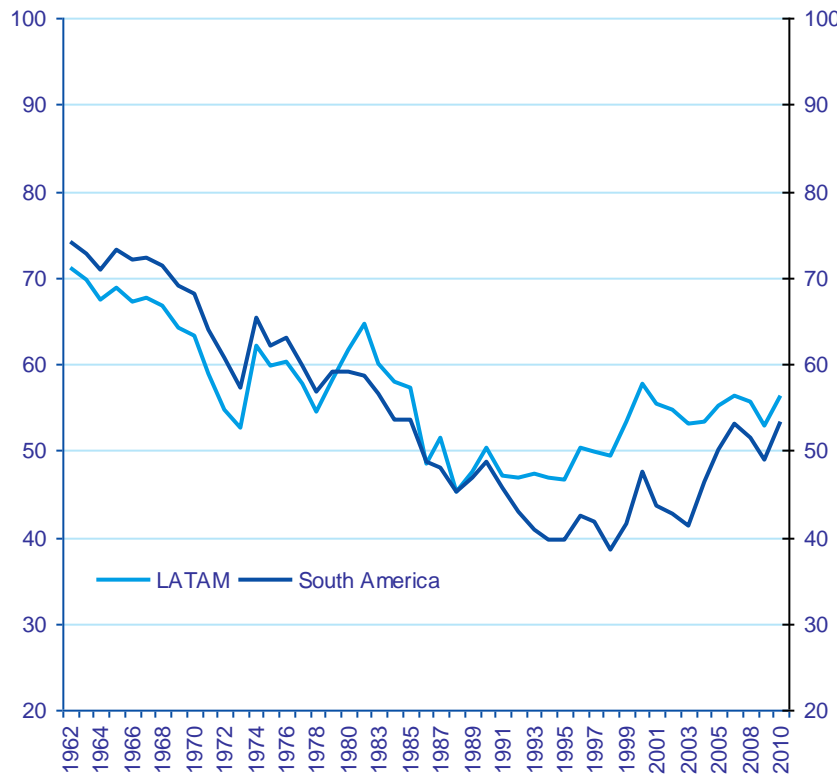
4. Perception of commodity abundance changing?

An attempt to answer this question can be found in recent joint work by Alicia García-Herrero and Mario Nigrinis (BBVA) in collaboration with Matt Ferchen (Tsinghua U.) and KC Fung (U. of California)

Export diversification largely reduced but reverse trend

Exports: Top 5 goods cumulative share

Source: COMTRADE and BBVA Research

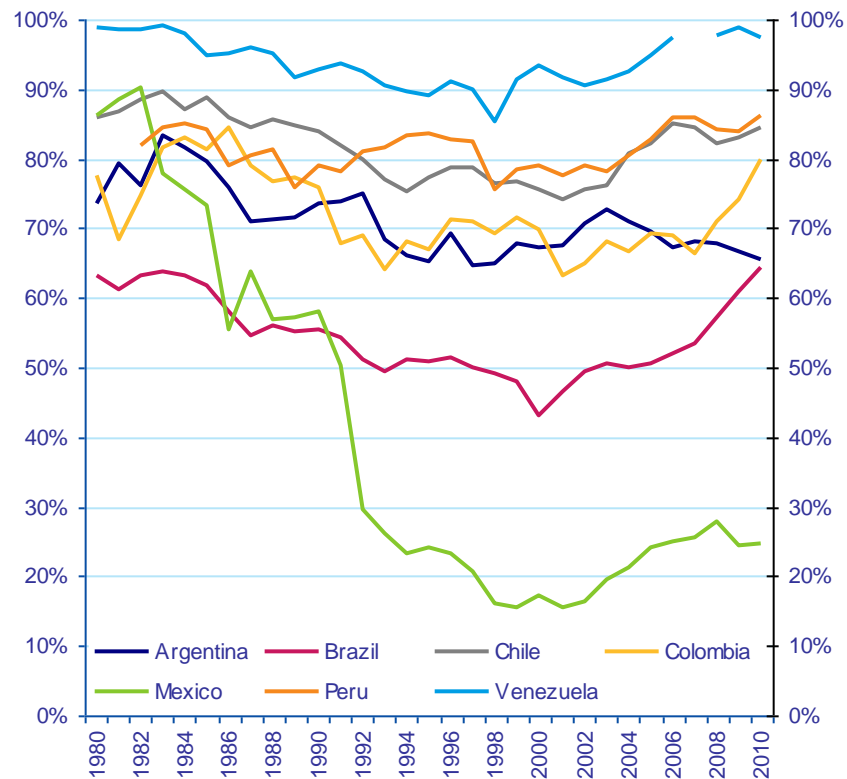
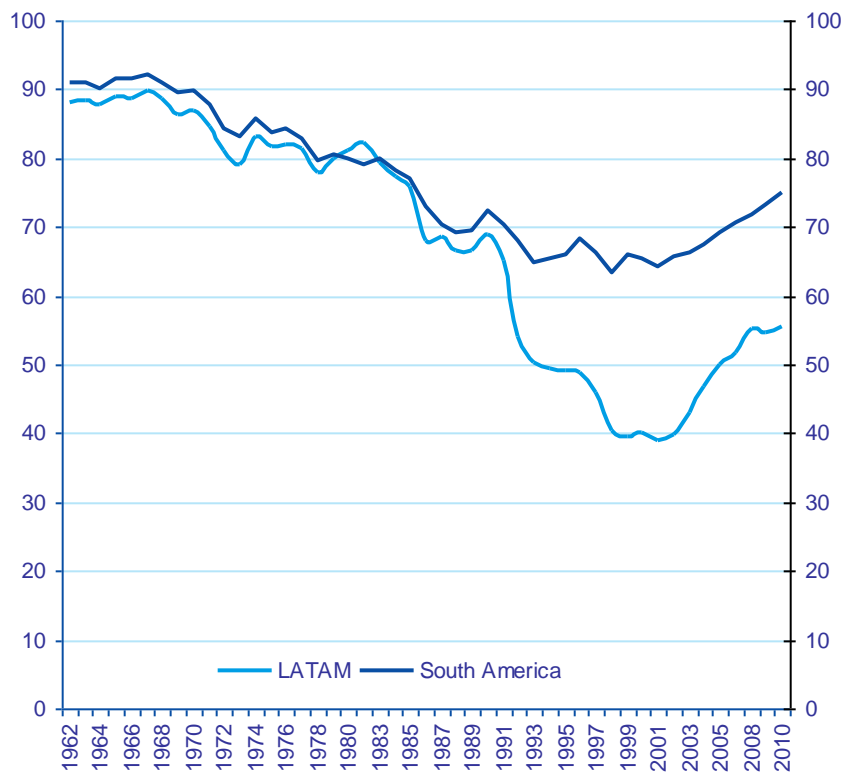


In the case of South America there has been a reversal which began 10 years ago, coinciding with the emergence of China as a world powerhouse

Diversification away from commodities even more reduced recently

Commodity Exports: Share of total exports (%)

Source: COMTRADE and BBVA Research

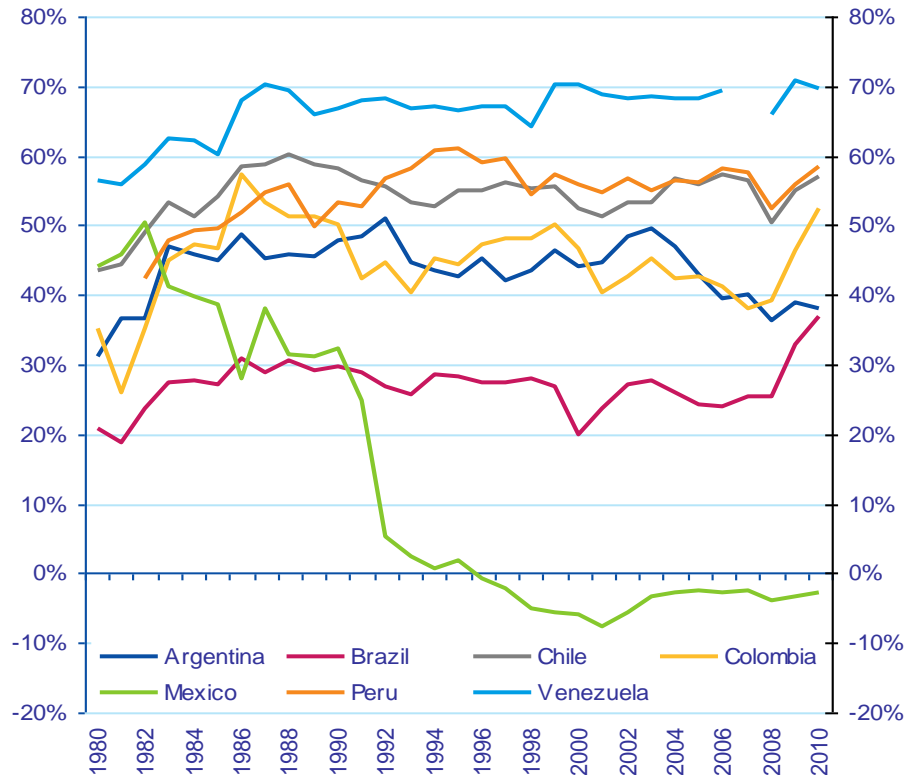


Commodities have always taken an important share of LATAM exports. After NAFTA, Mexican economy structure changed

Relative export diversification worsening since 2008

LATAM's excessive commodity exports: LATAM commodity exports share vs World average

Source: COMTRADE and BBVA Research



NAFTA helped changing the structure of Mexican economy

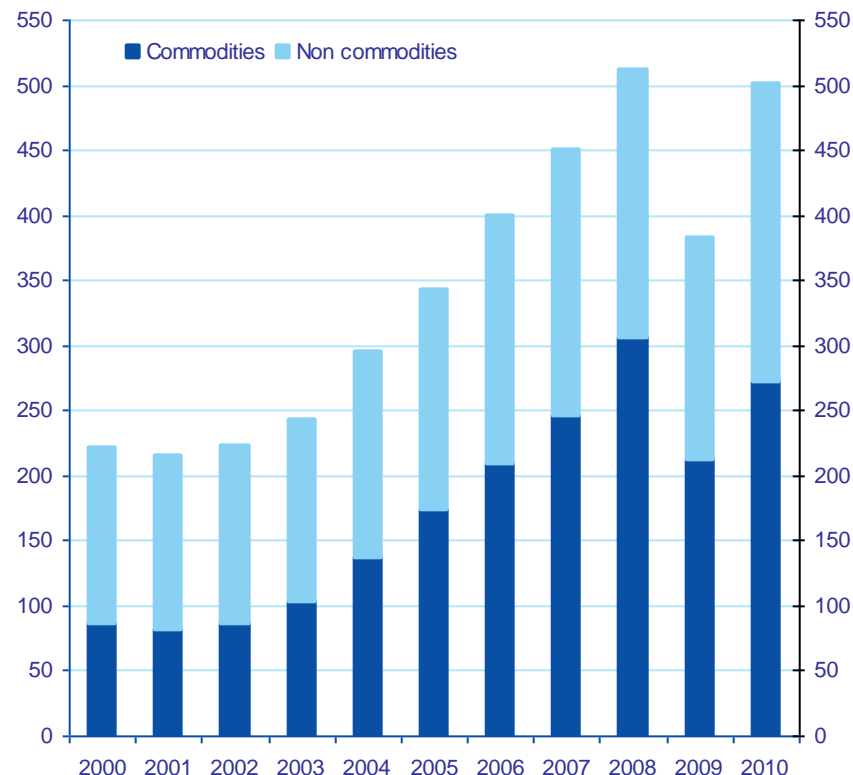
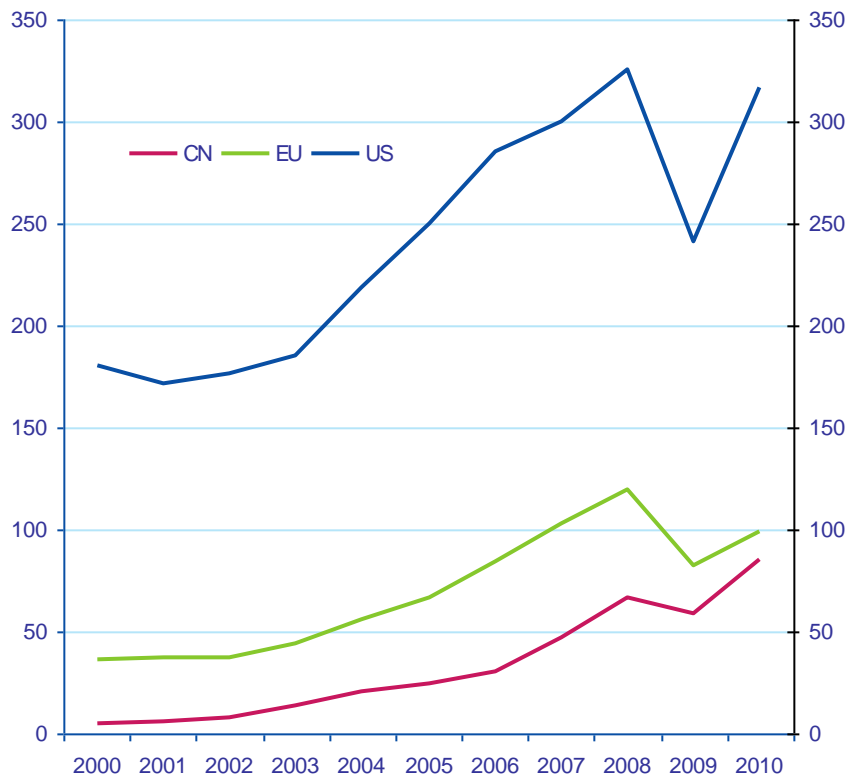
It was only since 2008 that the share of South American economies commodity exports rose more than the world average. This may imply the following:

Compared with the rest of the World, South American economies have always been intensive in commodity exports

US still most important partner for Latin America as a whole but...

US, EU and China: Total imports from LATAM 7 in USD Billions

Source: COMTRADE and BBVA Research

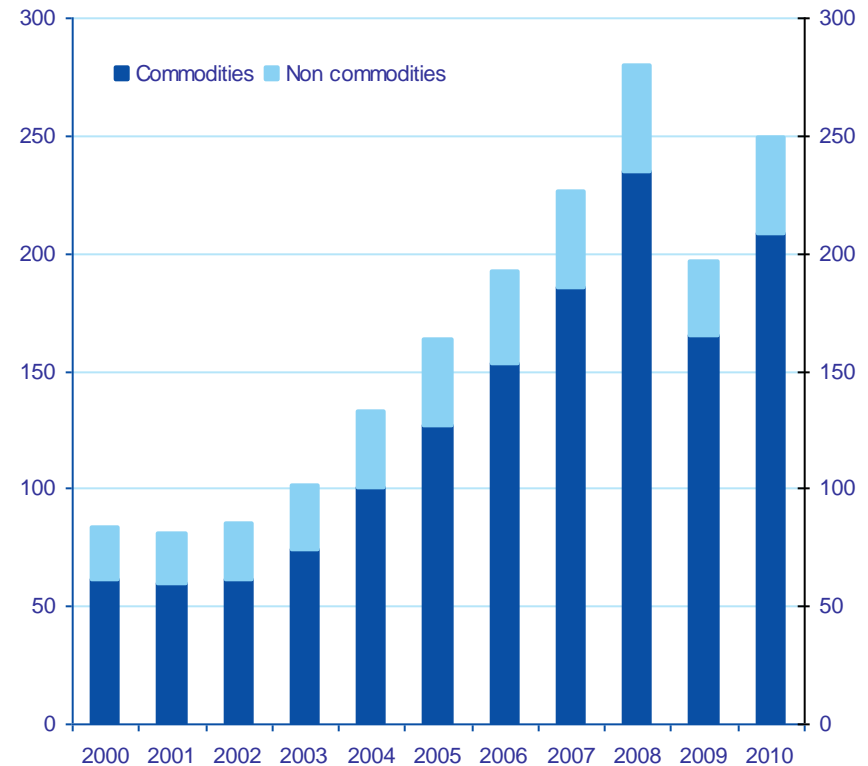
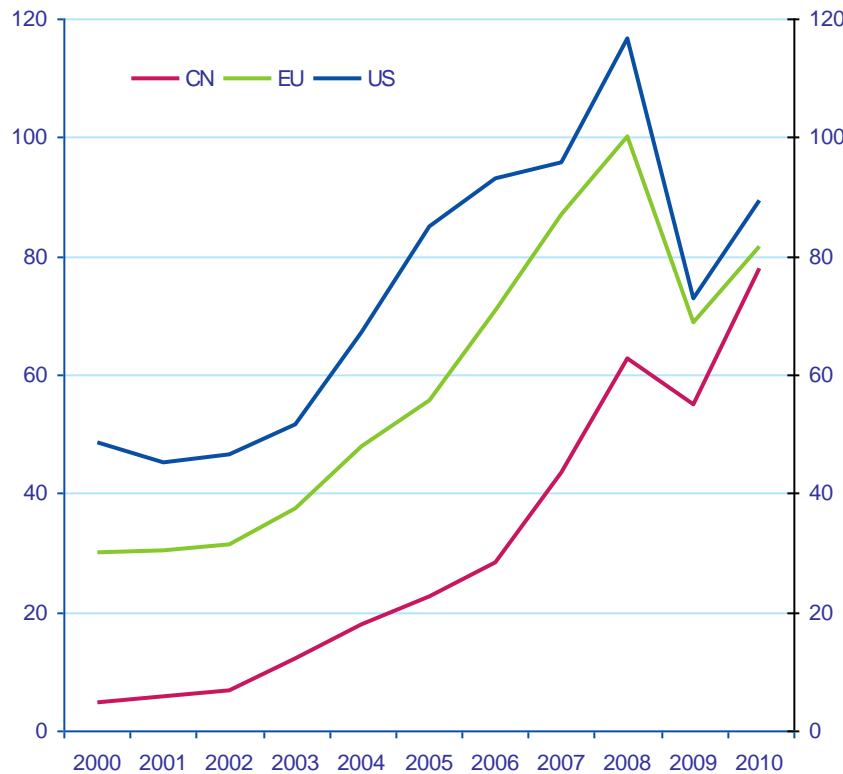


The rise of China is dramatic and in 2010 almost caught up with EU (EZ+UK) as the region second largest partner. Commodities are about half of the total exports

China about to catch up for South America and commodities much more important

US, EU and China: Total imports from South America in USD Billions

Source: COMTRADE and BBVA Research



Although the US is still the top export destination, the difference with EU and China is not as large. Commodities dominate export flows. China's demand was a buffer in 2009

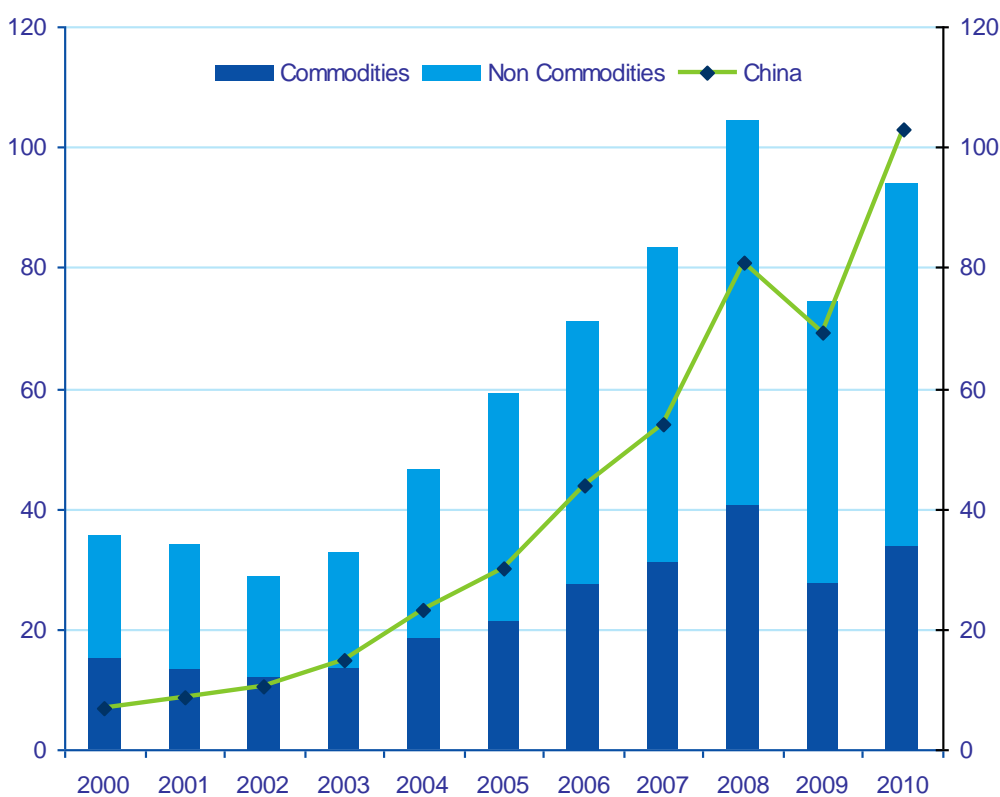
Intraregional trade could save the day?

Growing fast also and relatively focused on manufactured goods

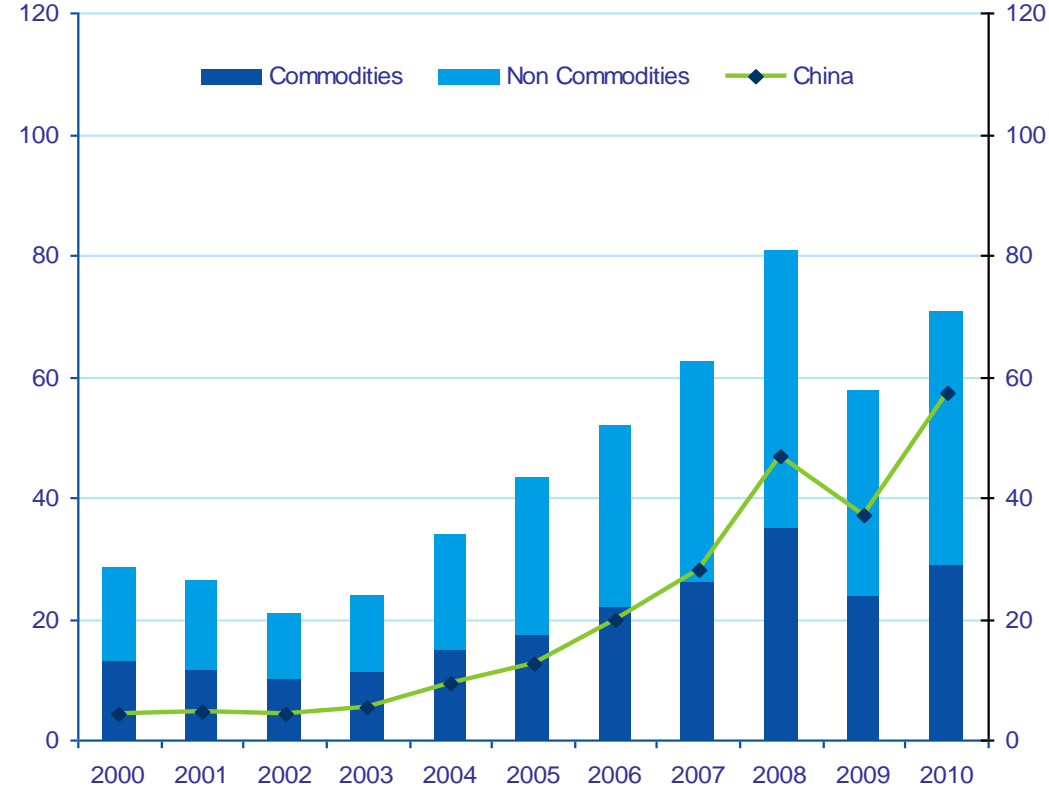
Intraregional trade and Sino imports: in USD Billions

Source: COMTRADE and BBVA Research

LATAM 7



South America



Conclusions

Exports concentration as a source of concern

- There seems to be a growing consensus that excessive concentration of exports may be detrimental for economic development, in particular when concentration is in commodities

What has happened in LATAM?

- Historically LATAM exports have been concentrated in commodities although a process of diversification did indeed take place until the end of the last century
- That trend has changed starting 2008 and quite rapidly

Is China responsible?

- Our results show some evidence that China is indeed behind the renewed concentration on exports on commodities

Dependency of Chinese demand

- Our case of study show that for commodities like soy bean and non ferrous metals, South American economies are more reliant on Chinese demand than other exporters. For oil and iron ore other countries are more dependent than South American ones

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